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OF REALTORS®

Southern California Housing Market Outlook SCAG Regional Housing Summit May 21, 2008

Robert A. Kleinhenz, Ph.D.
Deputy Chief Economist
California Association of REALTORS®

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Overview

- **Economic Outlook for US & CA**
- **Current Market Conditions: US & Regional**
- **Mortgage Rates & Woes**
- **Housing Market Outlook 2008**

www.car.org ⇒ “Economics”

The screenshot shows a Windows Internet Explorer browser window displaying the Economics page of the California Association of Realtors (C.A.R.) website. The browser's address bar shows the URL <http://www.car.org/index.php?id=Mw==>. The page features a navigation bar with links for Home, Sign Out, and Contact Us, along with a search bar. The date April 2, 2008, is displayed. The main heading is "Economics". A sidebar on the left contains a list of links: "Speeches & Presentations", "Current Research", "Economic Publications", "Market Data", and "Latest Market Analysis". The "Speeches & Presentations" link is circled in red, and a black arrow points to it. The main content area is titled "What's new" and lists several items: "Real Estate in the News - Online, TV, & Radio", "California Housing Market @ A Glance", "2008 California Housing Market Forecast", and "Feb 2008 Sales & Price Report". A "C.A.R. Research Reports" section with a "Click Here!" button is also visible.

Economics - Windows Internet Explorer

http://www.car.org/index.php?id=Mw==

Economics

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Home Sign Out Contact Us Search: go

April 2, 2008

visit: Other C.A.R. Sections...

Economics

Speeches & Presentations

Current Research

Economic Publications >

Market Data >

Latest Market Analysis

What's new

Real Estate in the News - Online, TV, & Radio
Find out what C.A.R. economists have to say about the real estate market in the news. >

California Housing Market @ A Glance
Click here for the California's latest housing market indicators. >

2008 California Housing Market Forecast >

Feb 2008 Sales & Price Report >

Fourth Quarter First-time Buyer Housing Affordability

C.A.R. Research Reports
Click Here!



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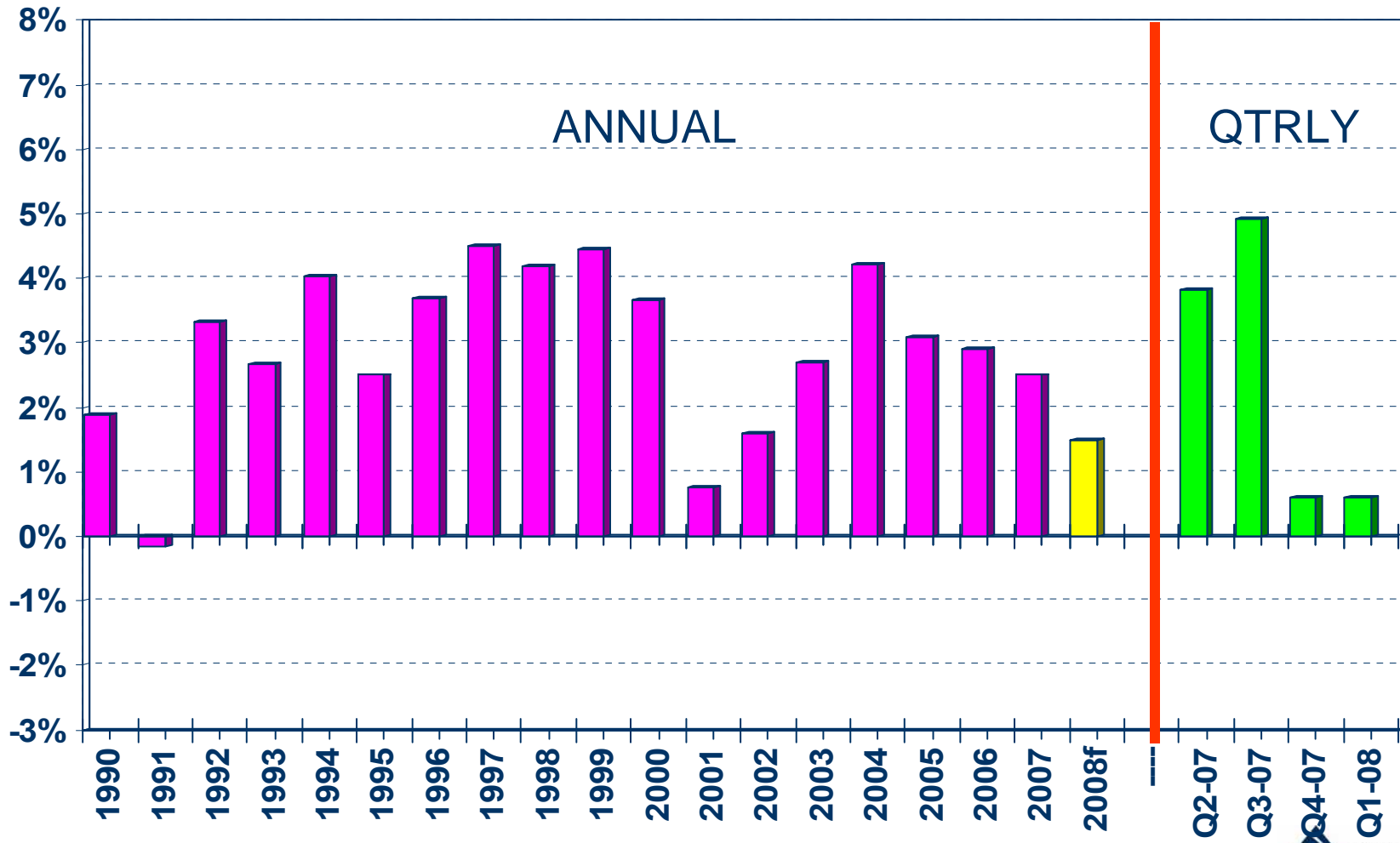
Economic Outlook

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Gross Domestic Product

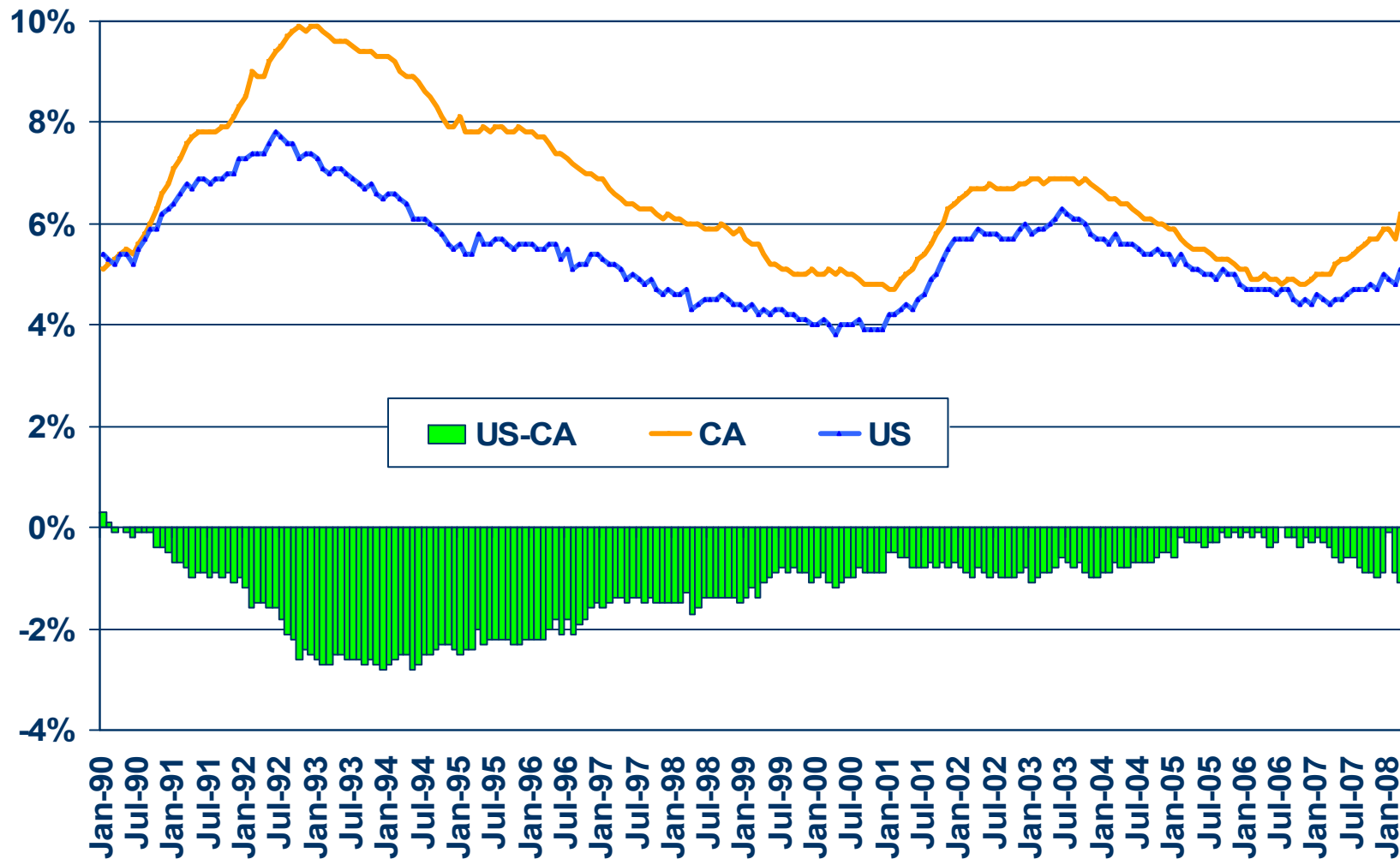
Year 2007: +2.5%; 2008 Q1: +0.6%

ANNUAL PERCENT CHANGE, CHAIN-TYPE (2000) \$



Unemployment Rate

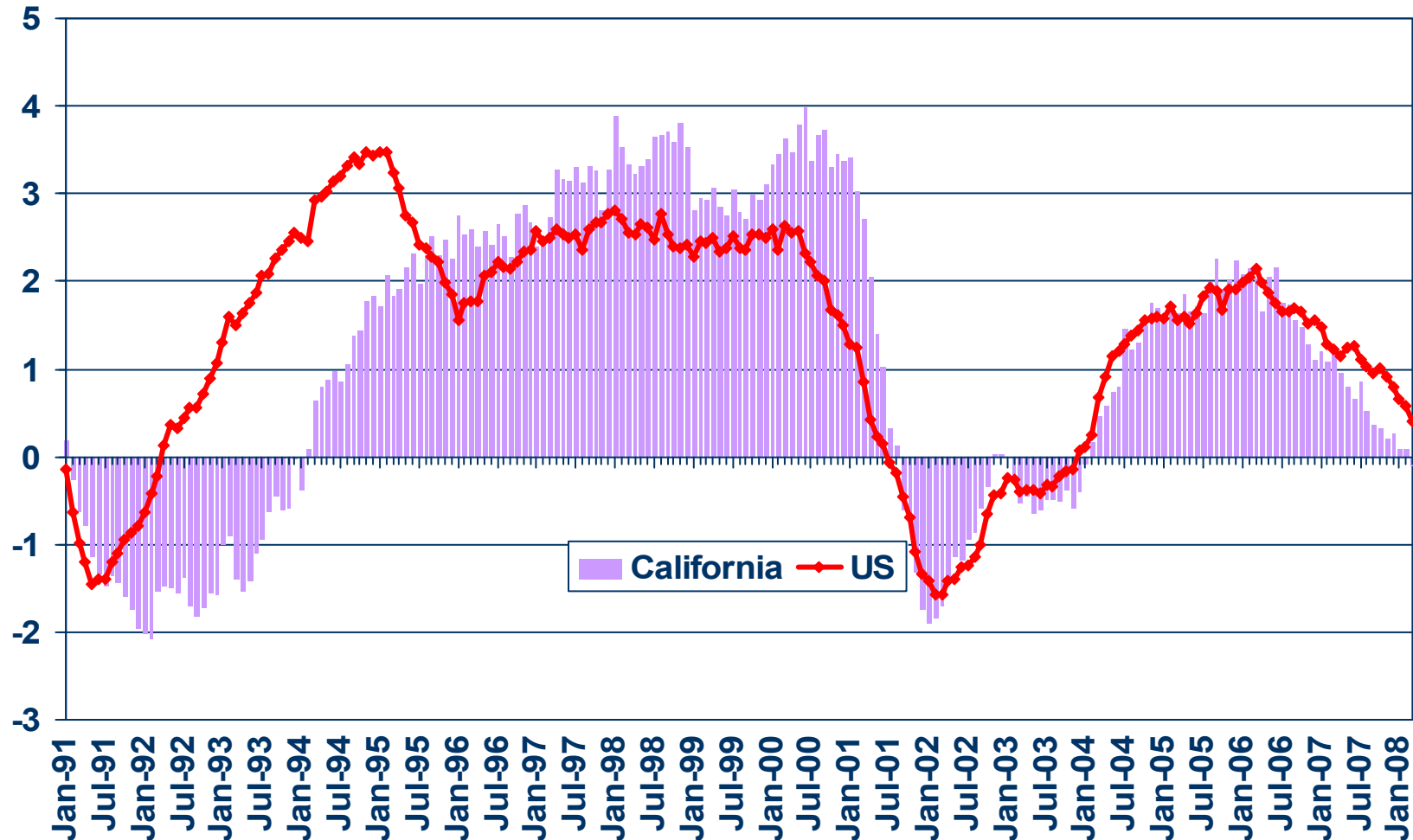
California vs. United States



SOURCE: CA Employment Development Division

Employment Growth, California vs. U.S.

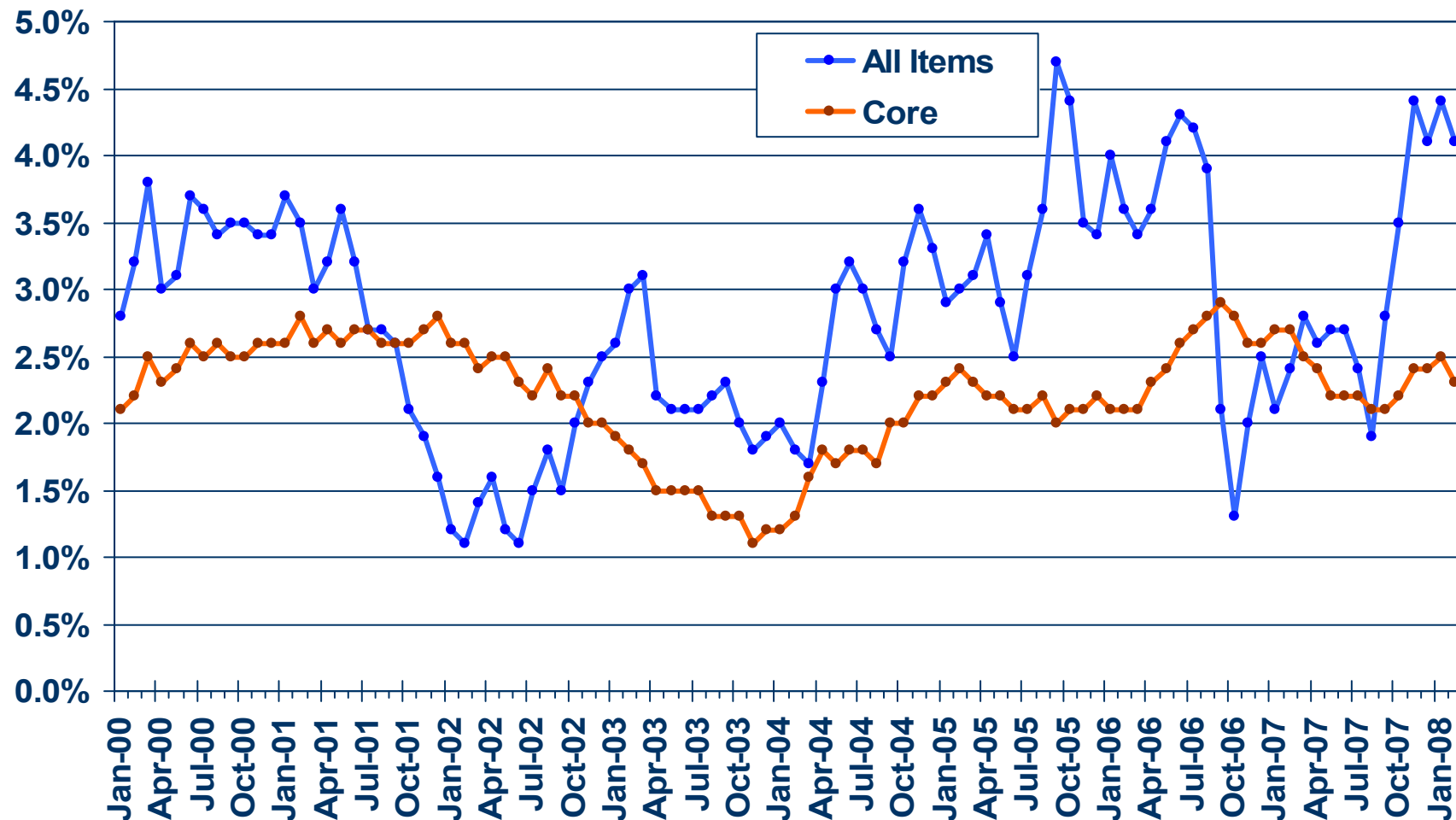
YEAR TO YEAR % CHANGE



Consumer Price Index

February 2008: All Items 4.1% Y-T-Y; Core 2.3% Y-T-Y

PERCENT CHANGE FROM A YEAR AGO, 100=1982-1984



U.S. Economic Forecast

	2003	2004	2005	2006	2007	2008f
US GDP	2.5%	3.6%	3.1%	2.9%	2.2%	1.5%
Nonfarm Job Growth	-0.3%	1.1%	1.7%	1.8%	1.1%	0.5%
Unemployment	6.0%	5.5%	5.1%	4.6%	4.6%	5.2%
CPI	2.3%	2.7%	3.4%	3.2%	2.9%	3.1%
Real Disposable Income	2.4%	3.4%	1.2%	2.6%	3.0%	2.0%

California Economic Forecast

	2003	2004	2005	2006	2007	2008f
Nonfarm Job Growth	-0.5%	1.0%	1.8%	1.8%	0.7%	0.5%
Unemployment Rate	6.8%	6.2%	5.4%	4.9%	5.4%	6.2%
Population Growth	1.7%	1.5%	1.3%	1.3%	1.1%	1.1%
Real Disposable Income, % Change	2.1%	3.1%	1.6%	1.8%	3.0%	1.0%

Economy in 2008

- GDP Growth below par: ~1 to 2%
- First half of year weak, stronger in last half
- Weak but positive job growth for US, CA, and its regions
- Unemployment rate up but still low by historic stds
- Inflation a concern but in check
- Federal Reserve more concerned about economic growth than inflation at this time
- Uncertainty about economy, credit crunch, and housing market
- Keep in mind...this is an Election Year!



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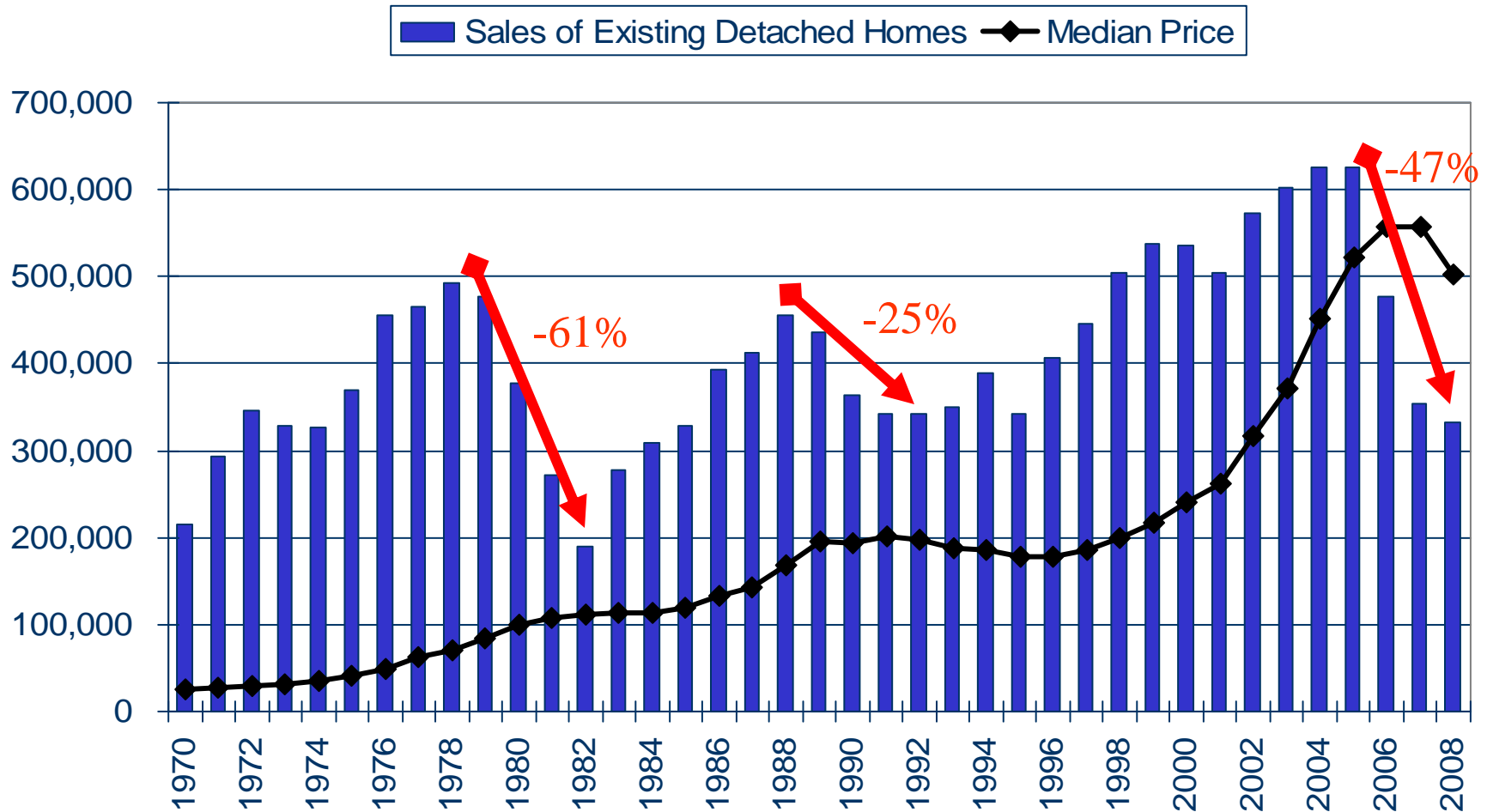
Housing Market Outlook

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Sales More Volatile Than Prices

California Sales of Existing Homes and Median Price

UNITS/MEDIAN PRICE \$

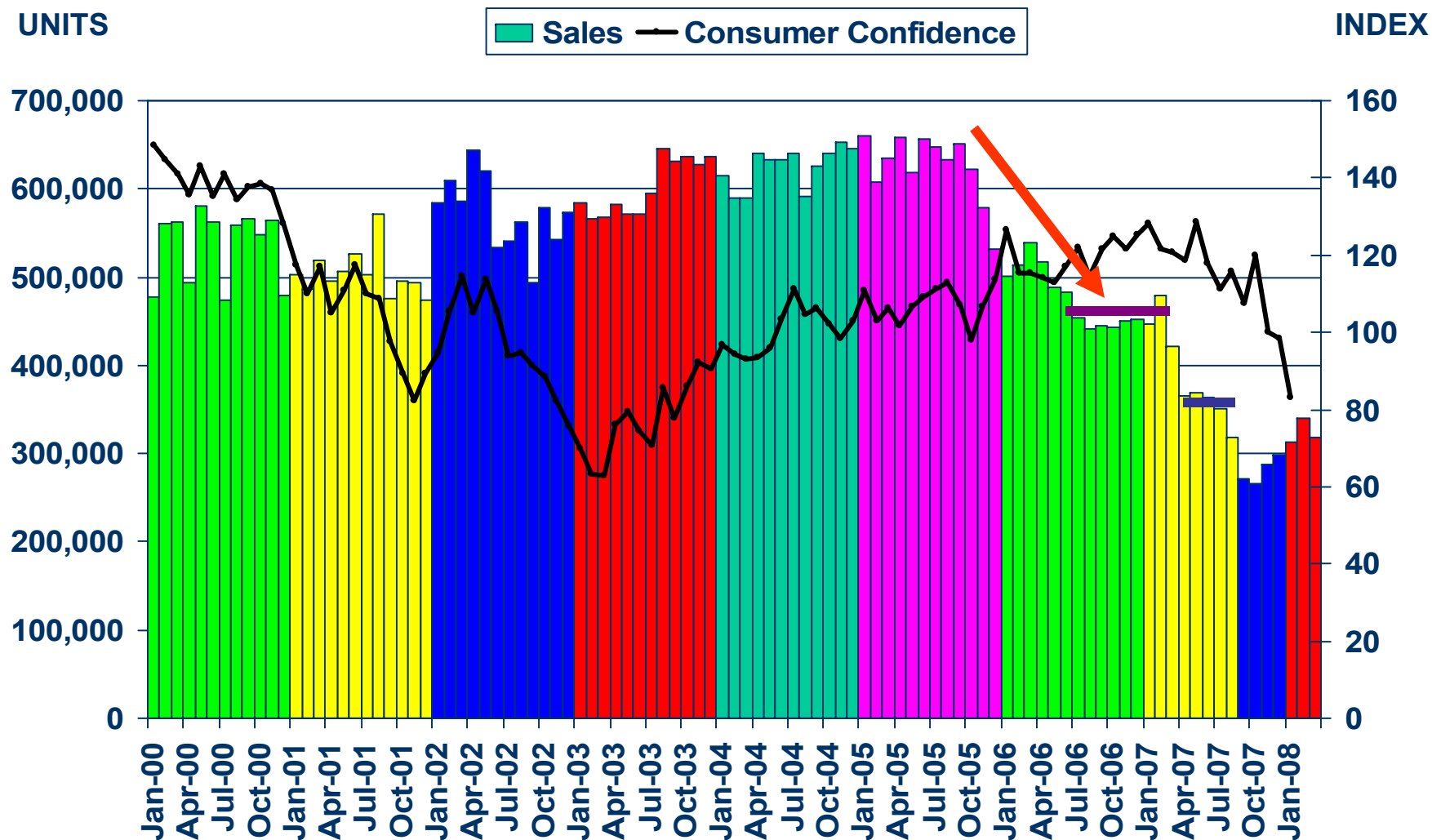


SOURCE: California Association of REALTORS®



Sales of Existing Detached Homes & Pacific West Consumer Confidence

California, March 2008 Sales: Down 27.9% Y-T-D, Down 24.5% Y-T-Y

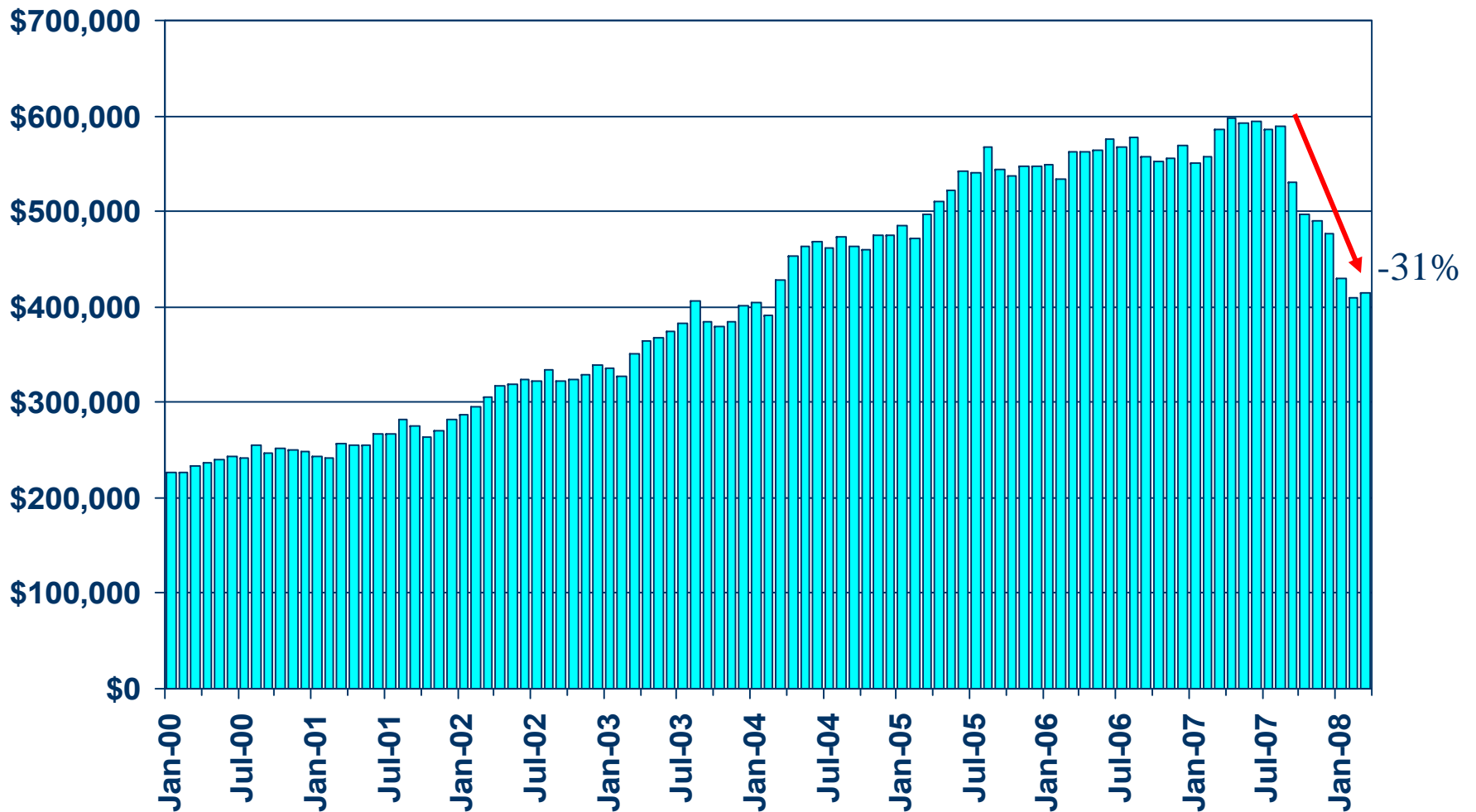


SOURCE: California Association of REALTORS®;
The Conference Board



Median Price of Existing Detached Homes

California, March 2008: \$413,980, Down 29.0% Y-T-Y



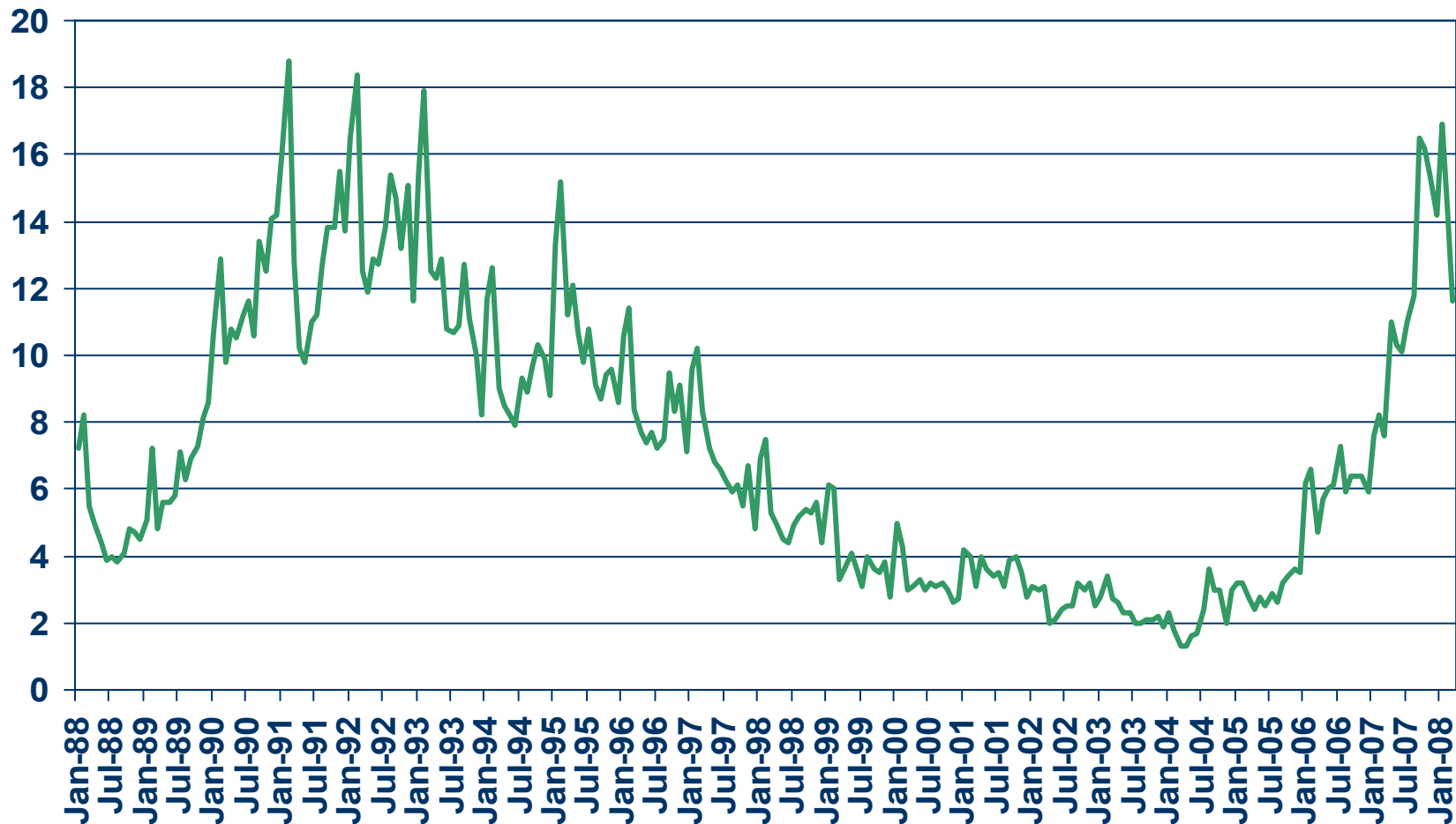
SOURCE: California Association of REALTORS®



Unsold Inventory Index

California, March 2008: 11.6 Months

MONTHS

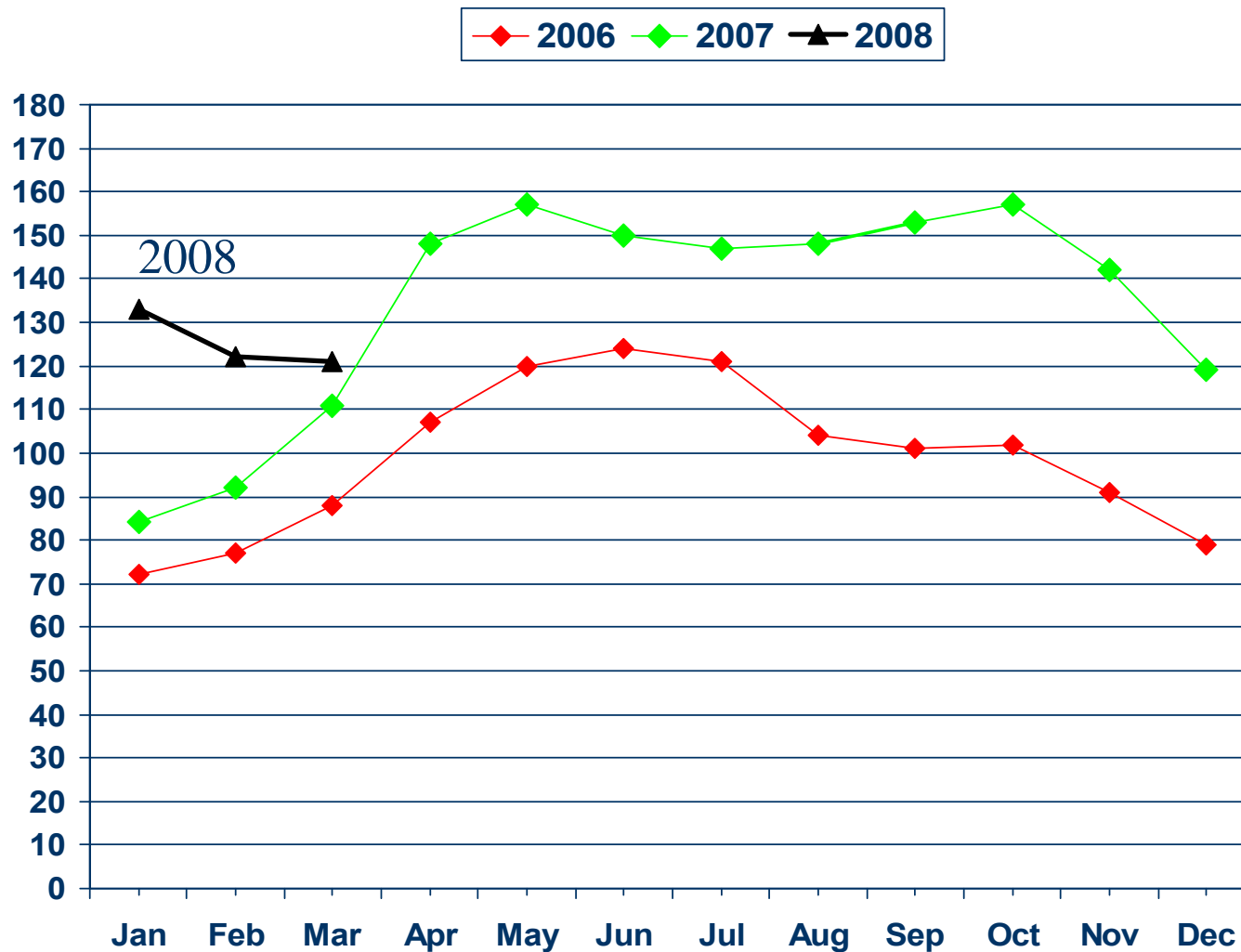


SOURCE: California Association of REALTORS®



Listings by Month, Selected Years

California (1982-2007 Average=100)



Record High:
March 1983 200
May 1992 176

Record Low:
Feb 2004 26

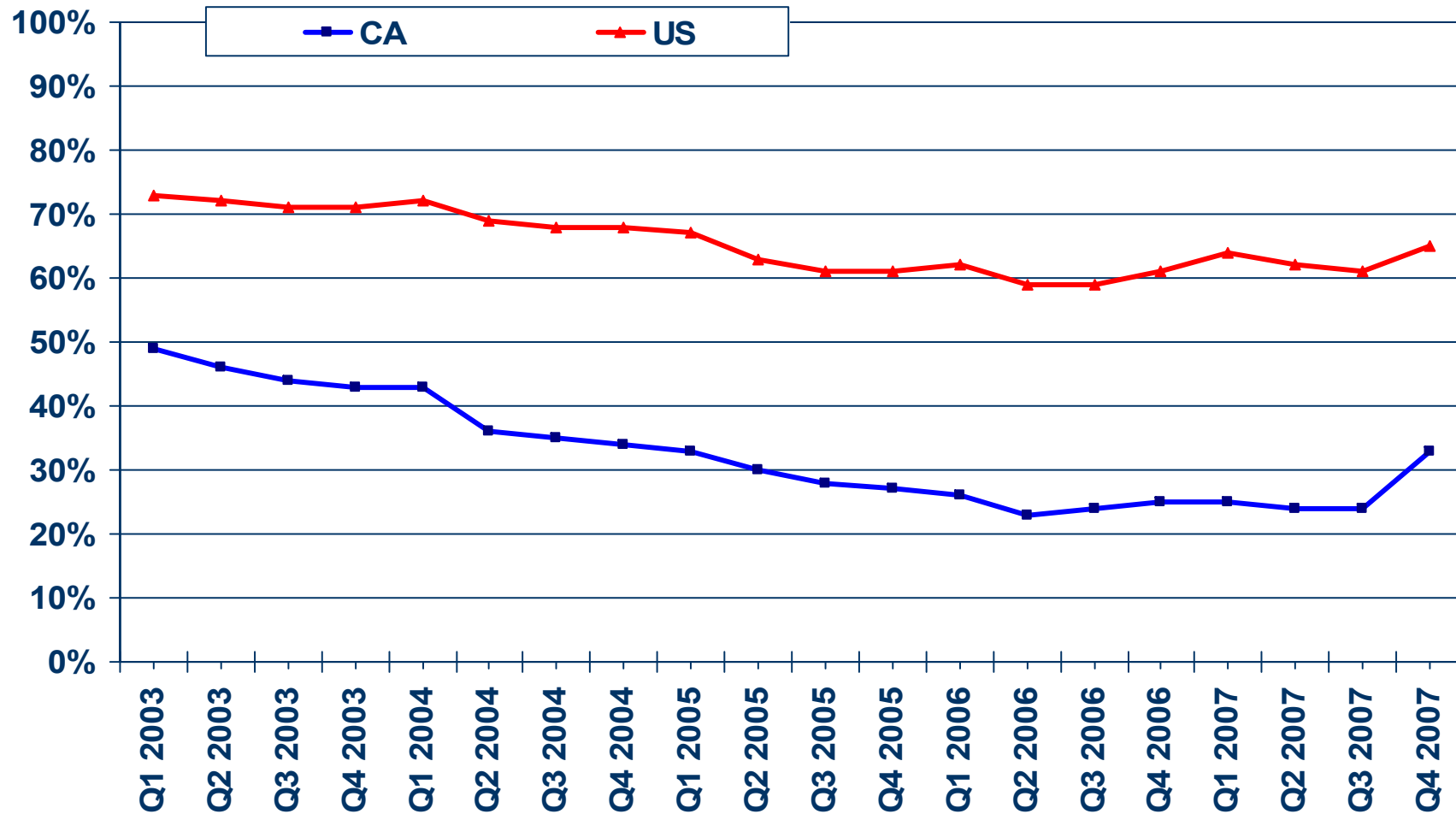
SOURCE: California Association of REALTORS®



First-time Buyer Housing Affordability Index

California Vs. U.S. 2003-2007

% OF HOUSEHOLDS THAT CAN BUY



SOURCE: California Association of REALTORS®





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Local Outlook

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Nonfarm Employment

(Thousands)	Nonfarm Employment Feb 2008	Nonfarm Employment Feb 2007	Change	Percent Change
Los Angeles	4,088.4	4,103.5	-15.1	-0.4%
Orange County	1,490.4	1,512.2	-21.8	-1.4%
Riverside/SB	1,253.1	1,267.4	-14.3	-1.1%
San Diego	1,297.4	1,297.1	0.3	0.0%
Ventura	290.0	295.4	-5.4	-1.8%
Total	8,419.3	8,475.6	-56.3	-0.7%

SOURCE: California Economic Development Dept.



Sales of Existing Detached Homes

County	Mar-08	Feb-08	Mar-07	M-t-M	Y-t-Y	Y-t-D
High Desert	557	413	637	34.9%	-12.6%	-26.4%
Los Angeles	2,558	2,004	4,100	27.6%	-37.6%	-37.6%
Orange	956	850	1,509	12.5%	-36.6%	-33.5%
Palm Springs	430	369	590	16.5%	-27.1%	-19.8%
Riverside/SB	944	649	994	45.5%	-5.0%	-13.1%
San Diego	1,095	948	1,562	15.5%	-29.9%	-23.5%
Sta. Barbara Area	132	117	170	12.8%	-22.4%	-10.9%
Ventura	273	236	444	15.7%	-38.5%	-37.9%

Average Change In CA Since 1982:

Jan to Feb : Down 4 percent

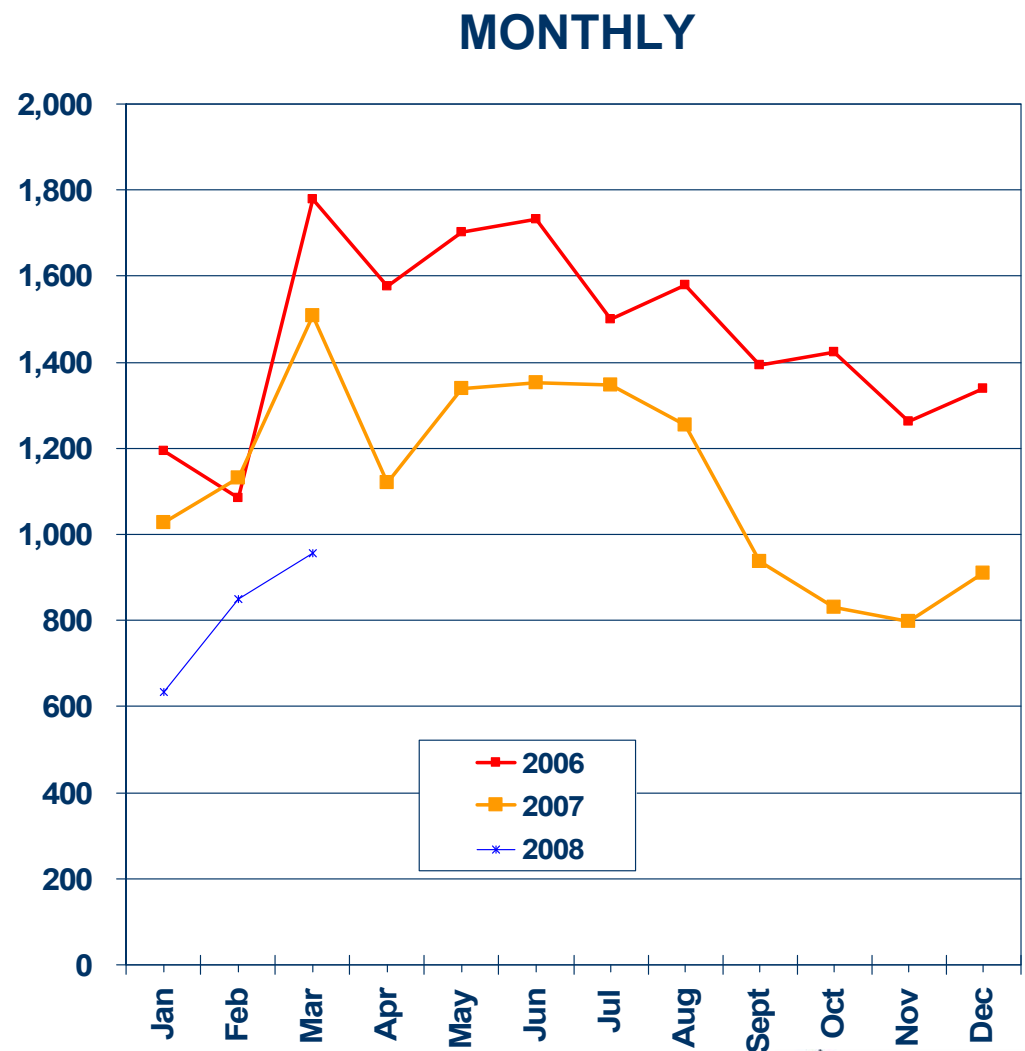
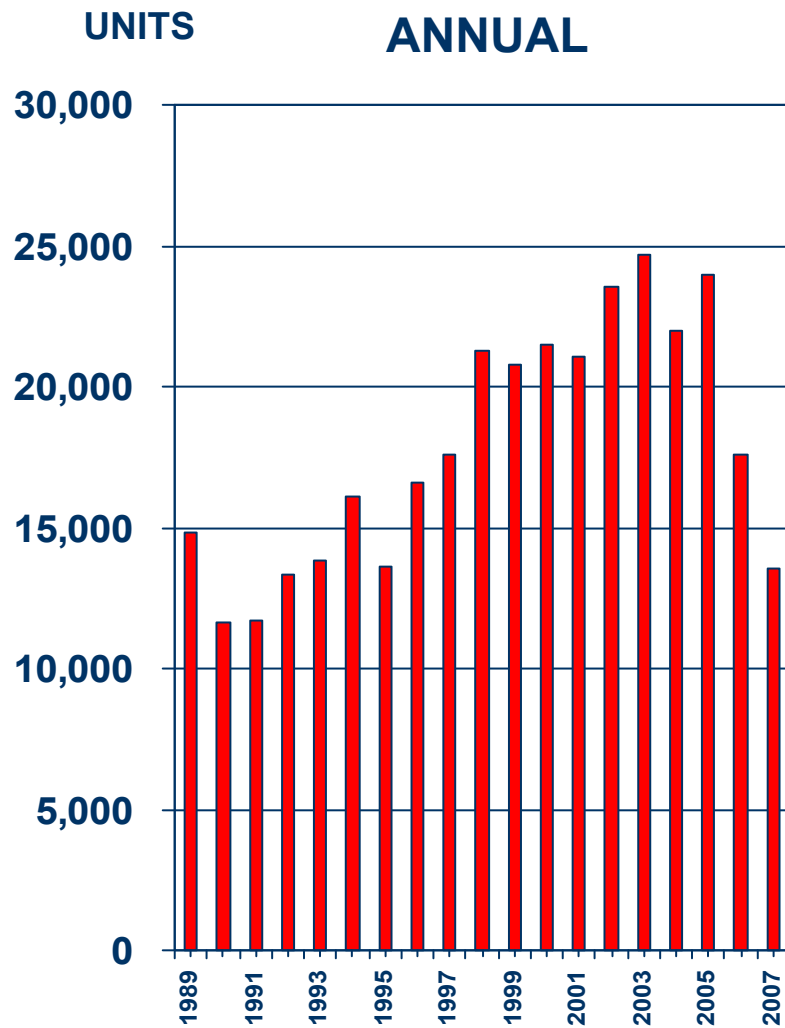
Feb to Mar: Up 41 percent

SOURCE: California Association of REALTORS®



Sales of Existing Detached Homes

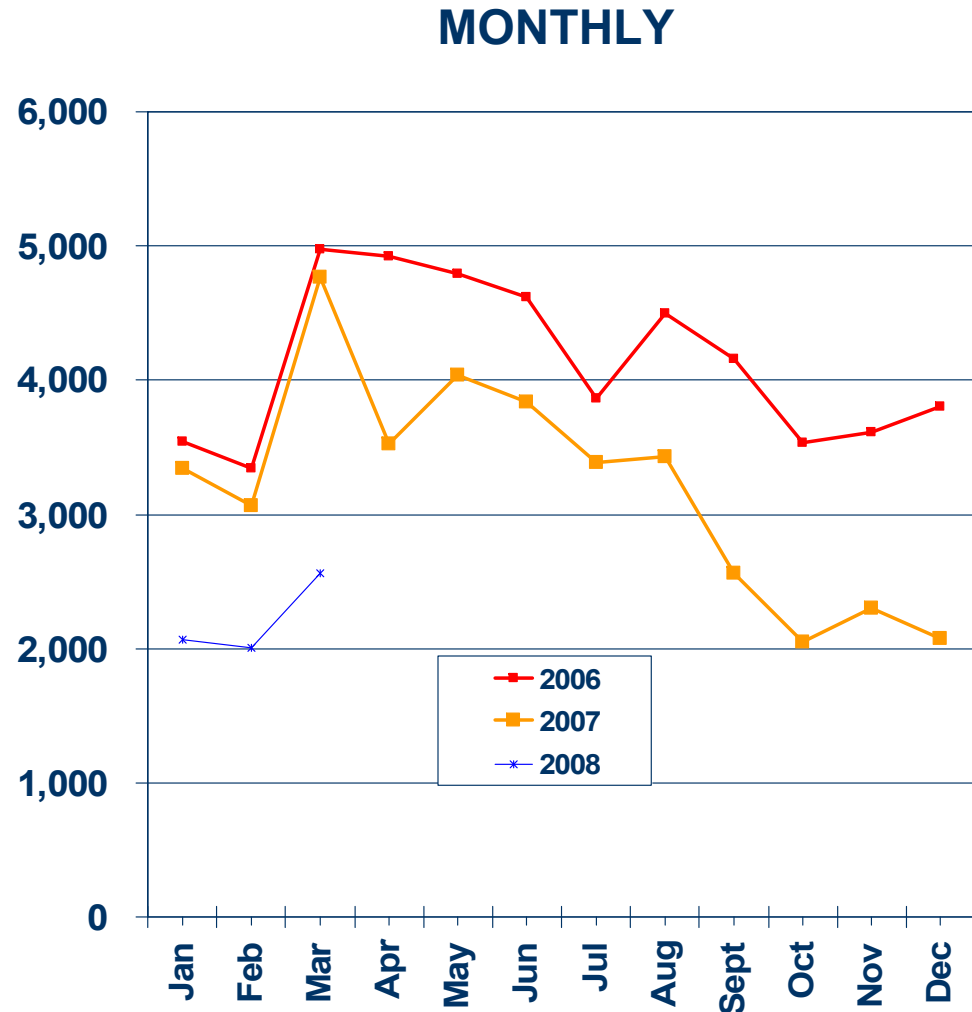
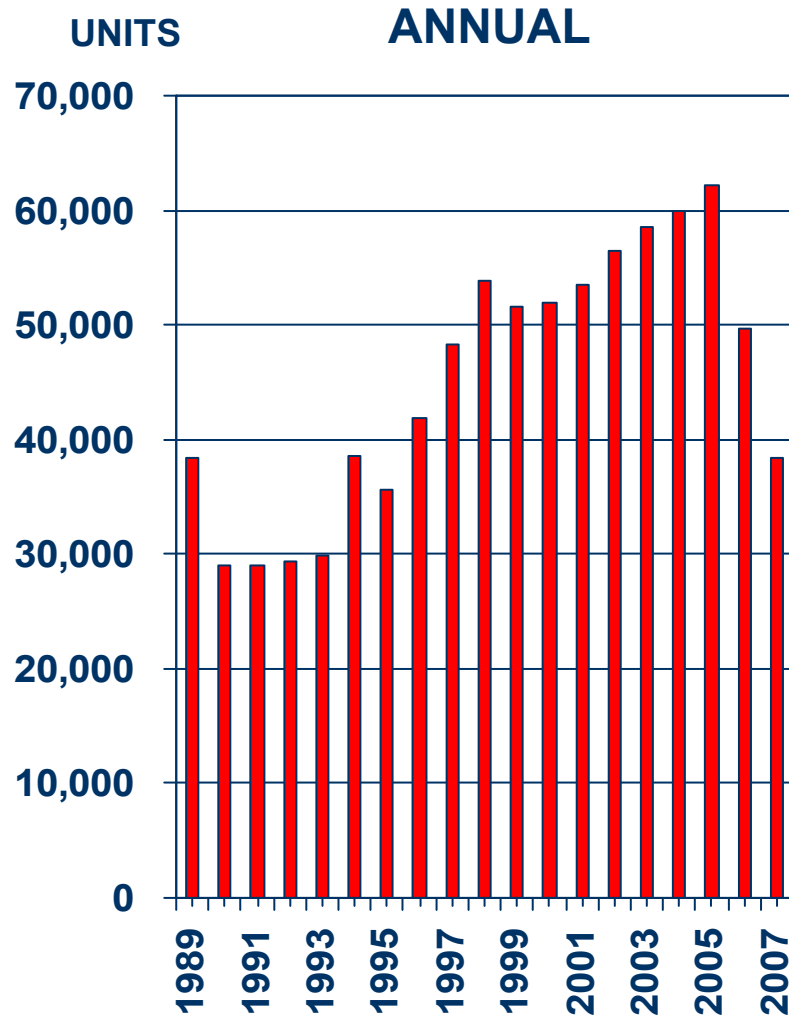
Orange County, 2007: -22.7% YTY, 2008: -33.5% YTD



SOURCE: California Association of REALTORS®

Sales of Existing Detached Homes

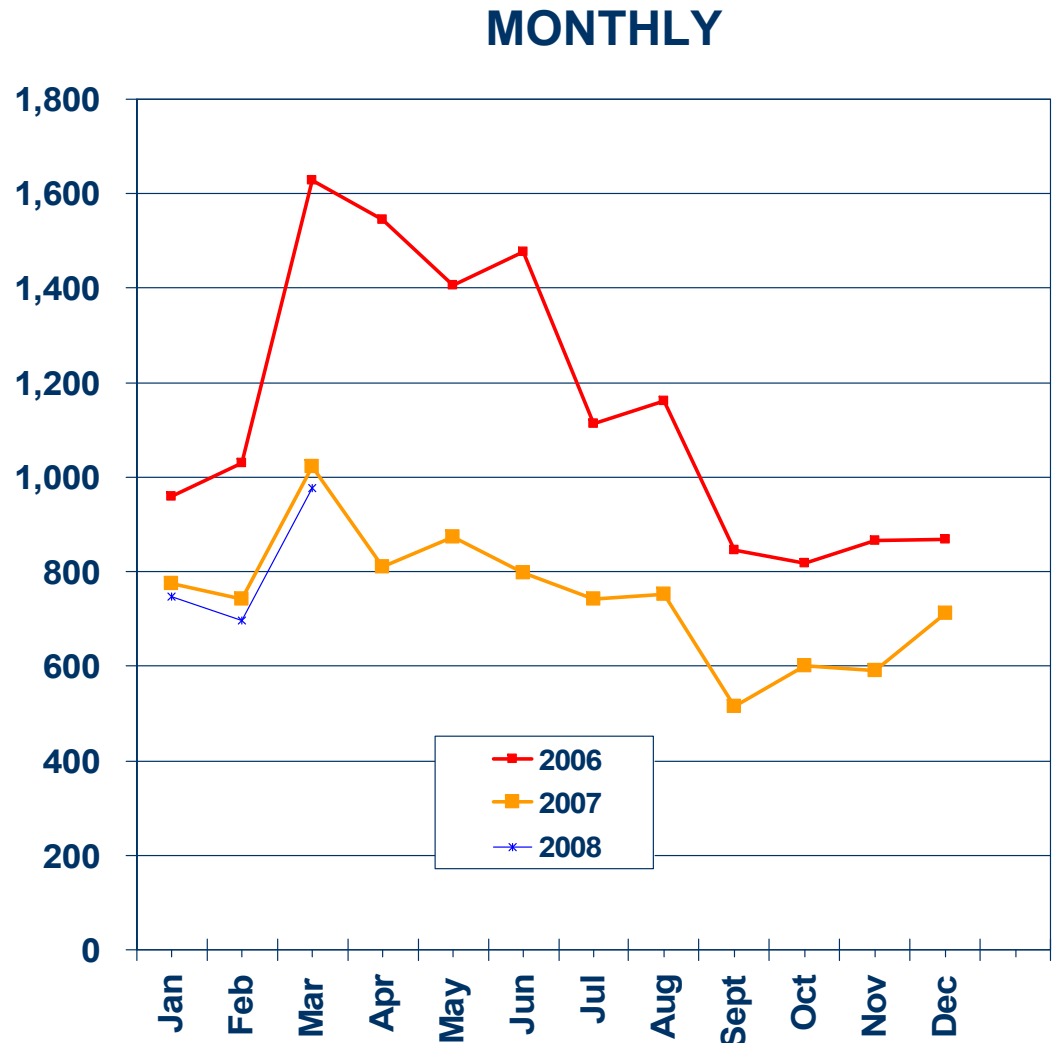
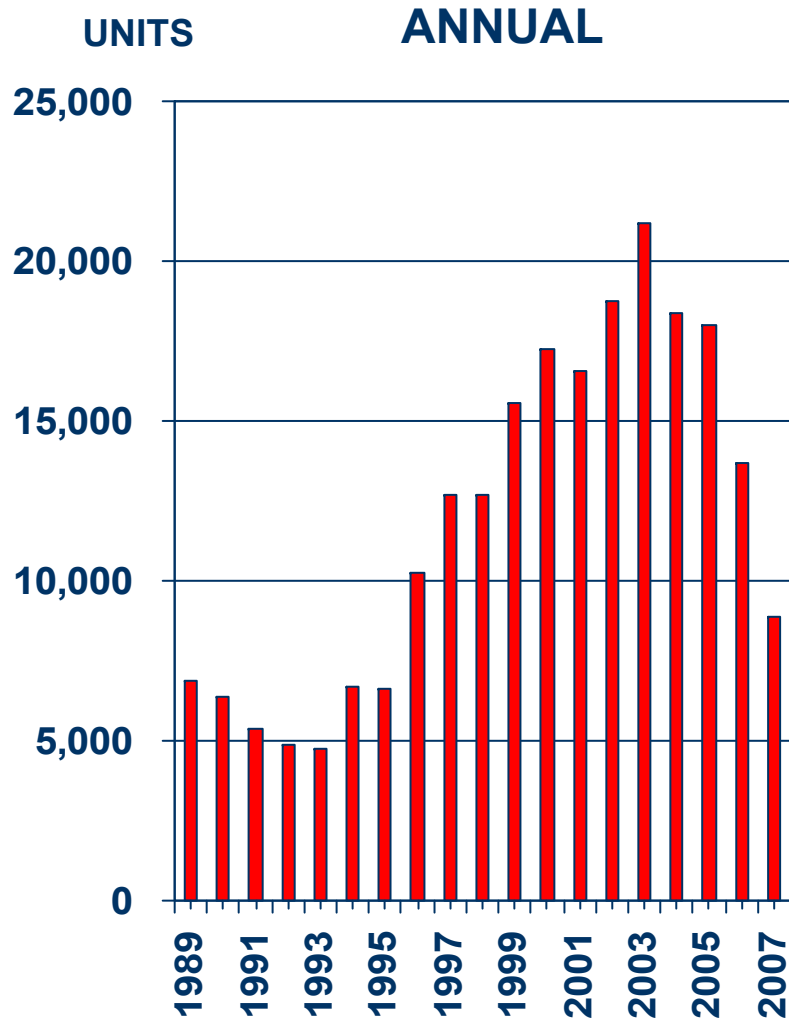
Los Angeles County, 2007: -22.7% YTY, 2008: -37.6% YTD



SOURCE: California Association of REALTORS®

Sales of Existing Detached Homes

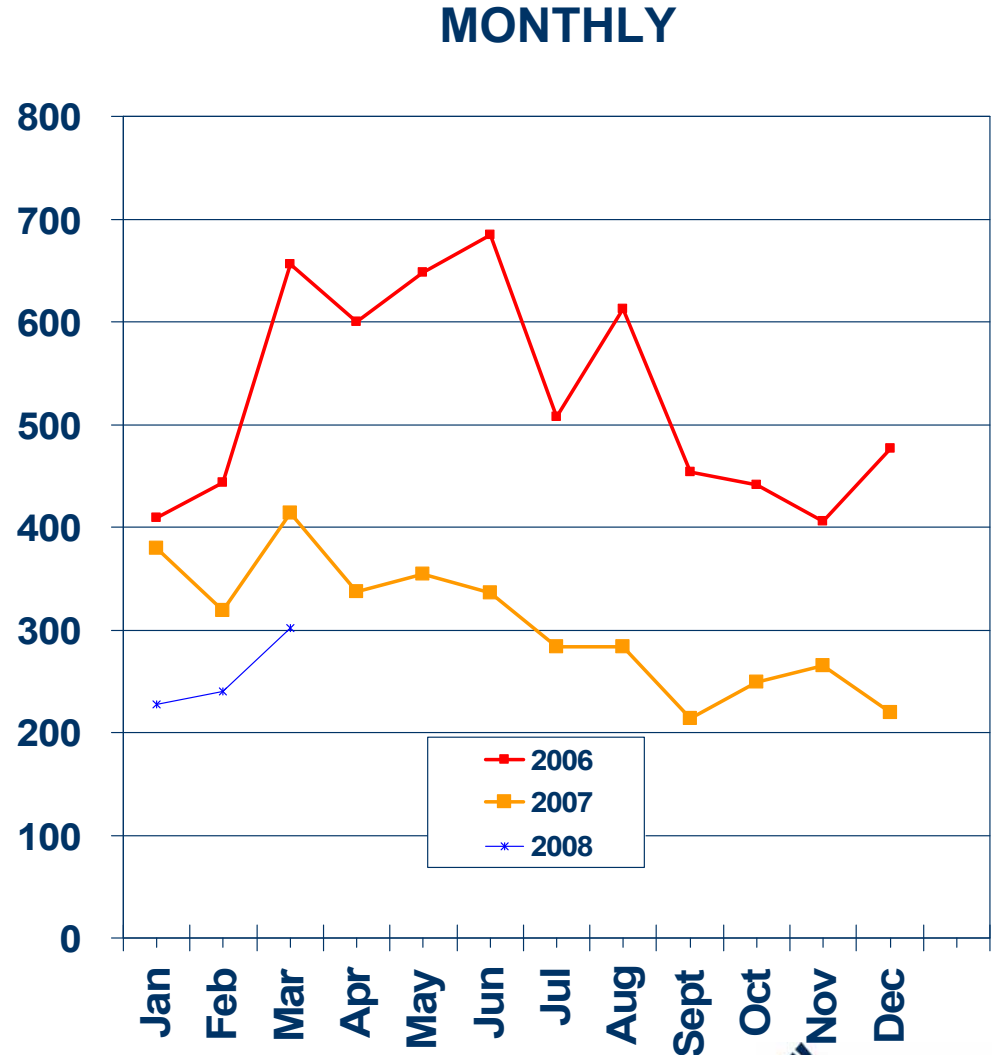
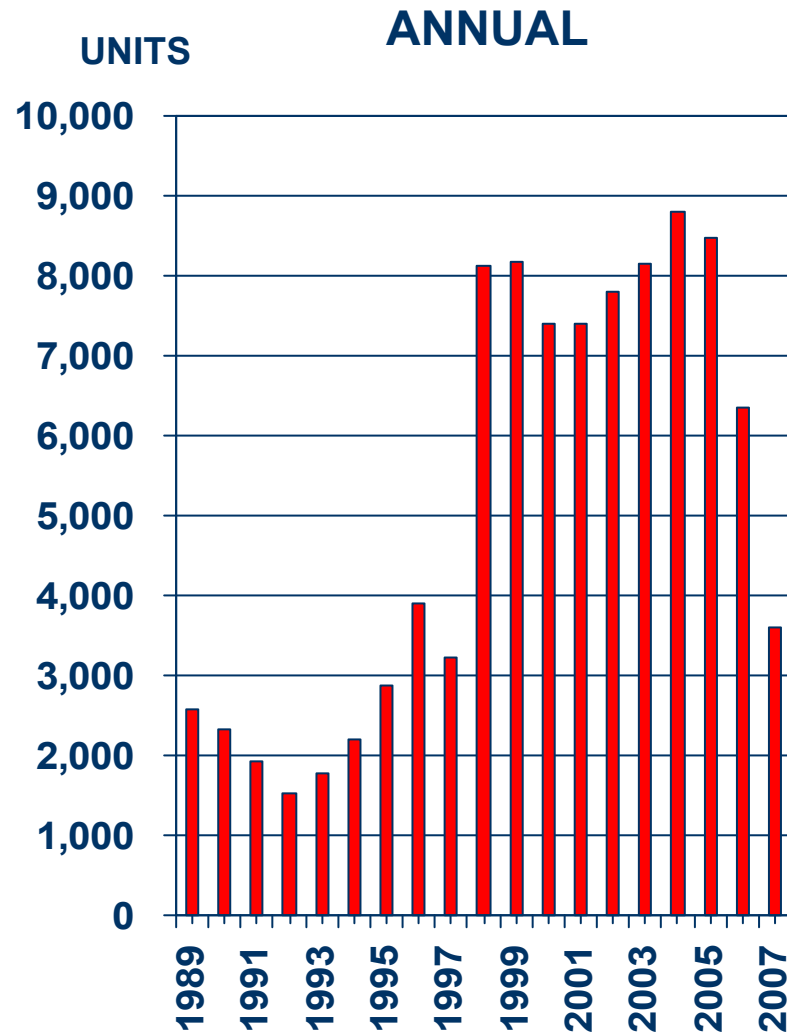
Riverside County, 2007: -35.5% YTY, 2008: -5.9% YTD



SOURCE: California Association of REALTORS®

Sales of Existing Detached Homes

San Bernardino County, 2007: -43.2% YTY, 2008: -30.1% YTD



SOURCE: C.A.R.

Median Price of Existing Detached Homes

Southern California Regions

County	Mar-08	Feb-08	Mar-07	M-t-M	Y-t-Y
High Desert	\$ 210,664	\$ 220,378	\$ 320,833	-4.4%	-34.3%
Los Angeles	\$ 431,947	\$ 477,652	\$ 580,964	-9.6%	-25.7%
Orange	\$ 591,463	\$ 596,519	\$ 706,650	-0.8%	-16.3%
Palm Springs	\$ 311,538	\$ 334,905	\$ 389,763	-7.0%	-20.1%
Riverside/SB	\$ 276,627	\$ 289,663	\$ 394,277	-4.5%	-29.8%
San Diego	\$ 447,500	\$ 450,707	\$ 605,946	-0.7%	-26.1%
Sta. Barbara-So. Coast	\$ 1,140,000	\$ 1,295,000	\$ 1,200,000	-12.0%	-5.0%
Sta. Barbara-North Cnty.	\$ 327,083	\$ 333,928	\$ 407,143	-2.0%	-19.7%
Ventura	\$ 504,213	\$ 520,270	\$ 672,548	-3.1%	-25.0%

SOURCE: California Association of REALTORS®



Peak vs Current Price-March 2008

Region	Peak Month	Peak Price	Mar-08 Median	% Chg From Peak
High Desert	Apr-06	\$334,860	\$210,660	-37.1%
Sacramento	Aug-05	\$394,450	\$258,460	-34.5%
Riverside San Bernardino	Jan-07	\$415,160	\$276,630	-33.4%
CALIFORNIA	Apr-07	\$597,640	\$413,980	-30.7%
Monterey Region	Aug-07	\$798,210	\$554,820	-30.5%
Ventura	Aug-06	\$710,910	\$504,210	-29.1%
Northern Wine Country	Jan-06	\$645,080	\$458,210	-29.0%
Los Angeles	Aug-07	\$605,300	\$431,950	-28.6%
San Diego	May-06	\$622,380	\$447,500	-28.1%
San Luis Obispo	Jun-06	\$620,540	\$467,310	-24.7%
Orange County	Apr-07	\$747,260	\$591,460	-20.8%
Palm Springs/Lower Desert	Jun-05	\$393,370	\$311,540	-20.8%
Northern California	Aug-05	\$440,420	\$356,950	-19.0%
San Francisco	May-07	\$853,910	\$704,580	-17.5%
Central Valley*(Aug 2007)	Aug-05	\$363,680	\$309,740	-14.8%
Santa Clara	Apr-07	\$868,410	\$810,000	-6.7%

Unsold Inventory Index (Months)

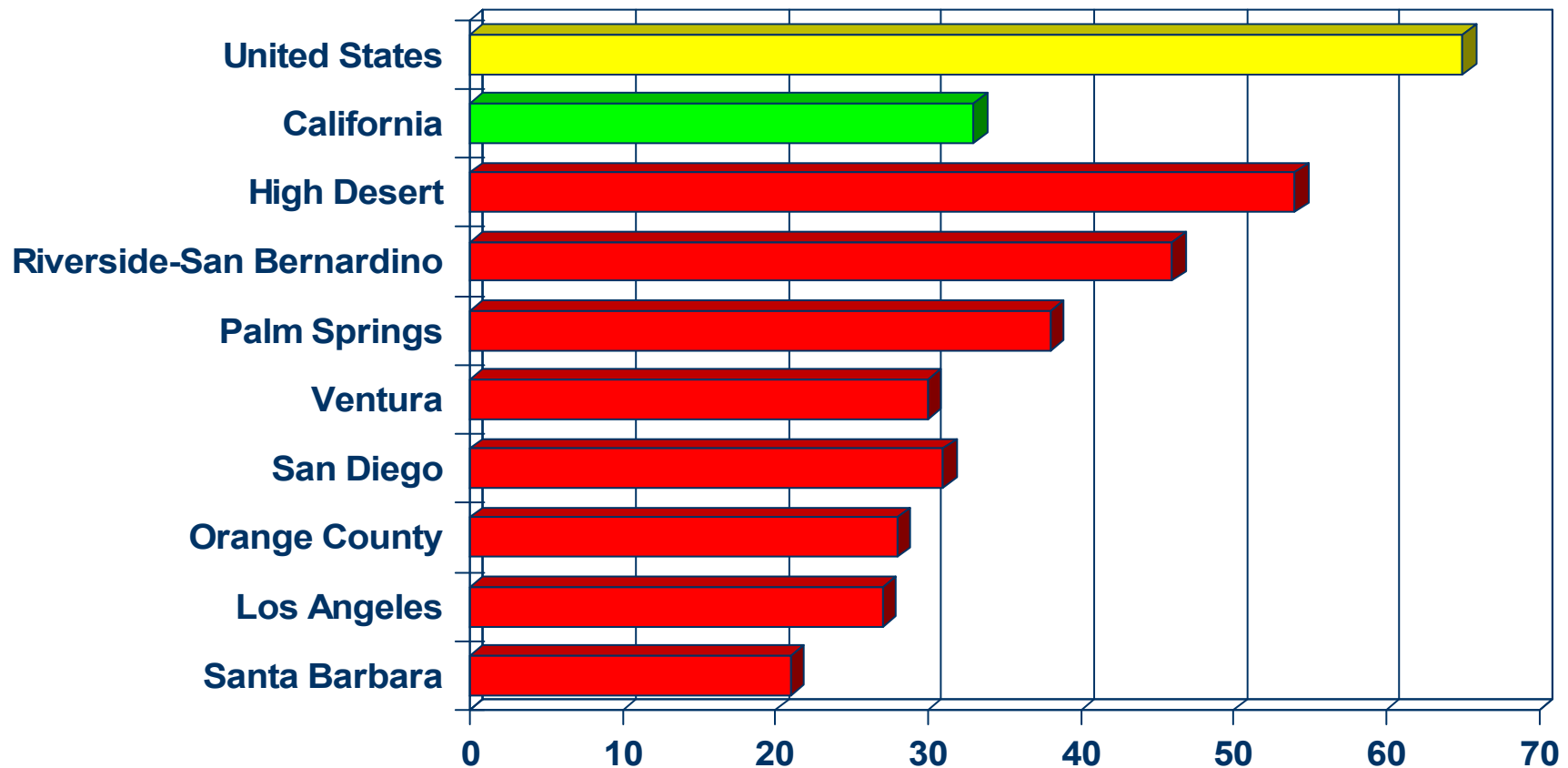
County	Mar-08	Feb-08	Mar-07
Los Angeles	14.2	18.2	8.3
Orange	N/A	N/A	16.3
Riverside/SB	13.3	19.3	11.2
San Diego	12.7	14.5	7.9
Santa Barbara	7.3	7.5	4.6
Southern California	13.4	16.9	10.2

SOURCE: California Association of REALTORS®



First-time Buyer Housing Affordability

4th Quarter 2007



SOURCE: California Association of REALTORS®



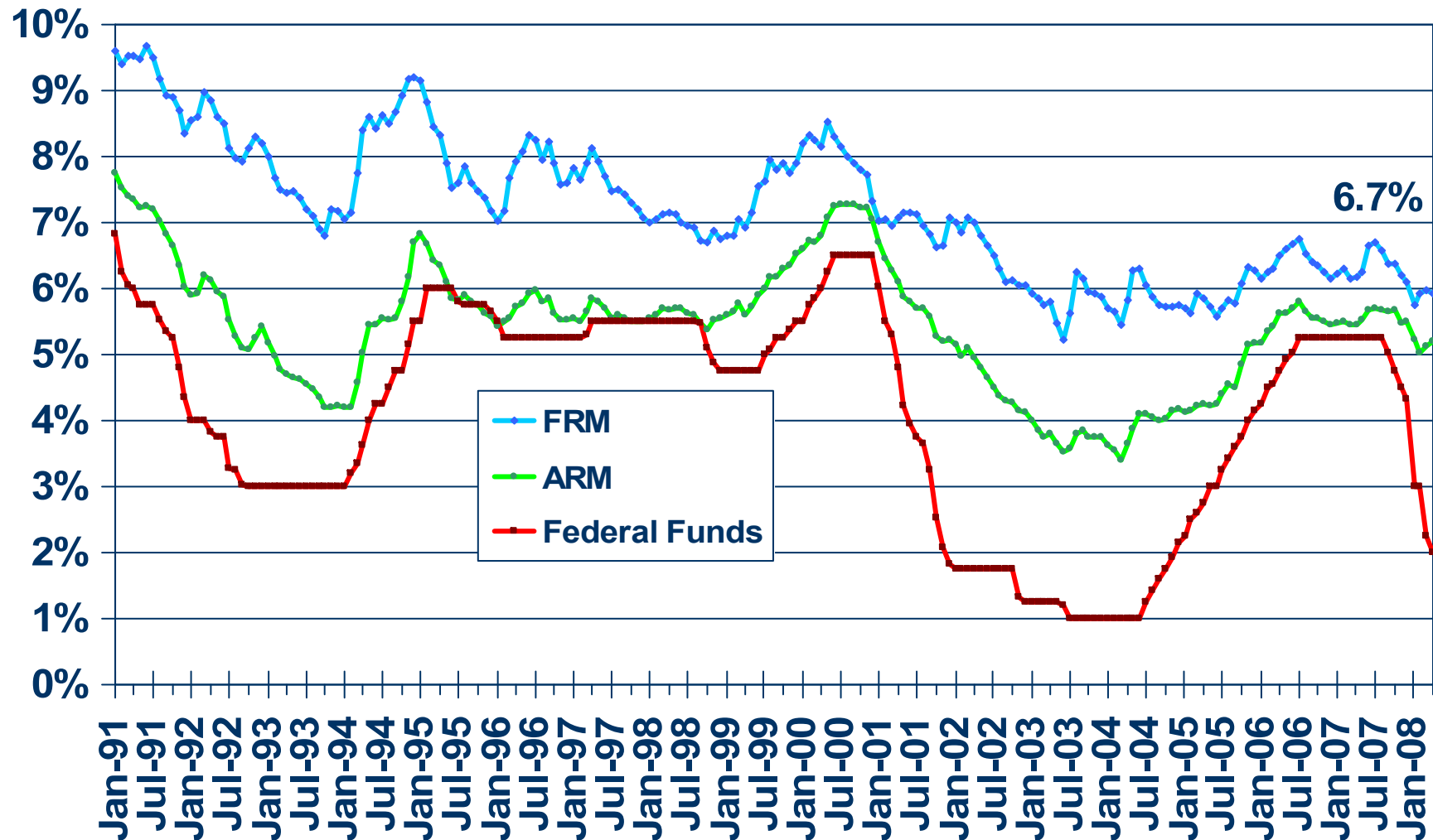


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Real Estate Finance: Mortgage Rates and Woes

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Mortgage Rates



SOURCE: Federal Home Loan Mortgage Corporation

Tail Wagging the Dog

- Financing Problems Have Constrained Market Activity
 - **Tighter Underwriting: harder to qualify**
 - **Credit Crunch:**
 - Harder to fund loans
 - Especially problematic with jumbo loans

Loans Fall Through...Deals Fall Through...

BUT Lenders and Buyers are increasingly finding ways to make deals happen!

Credit Crunch ≠ Tighter Underwriting

Tighter Underwriting Standards

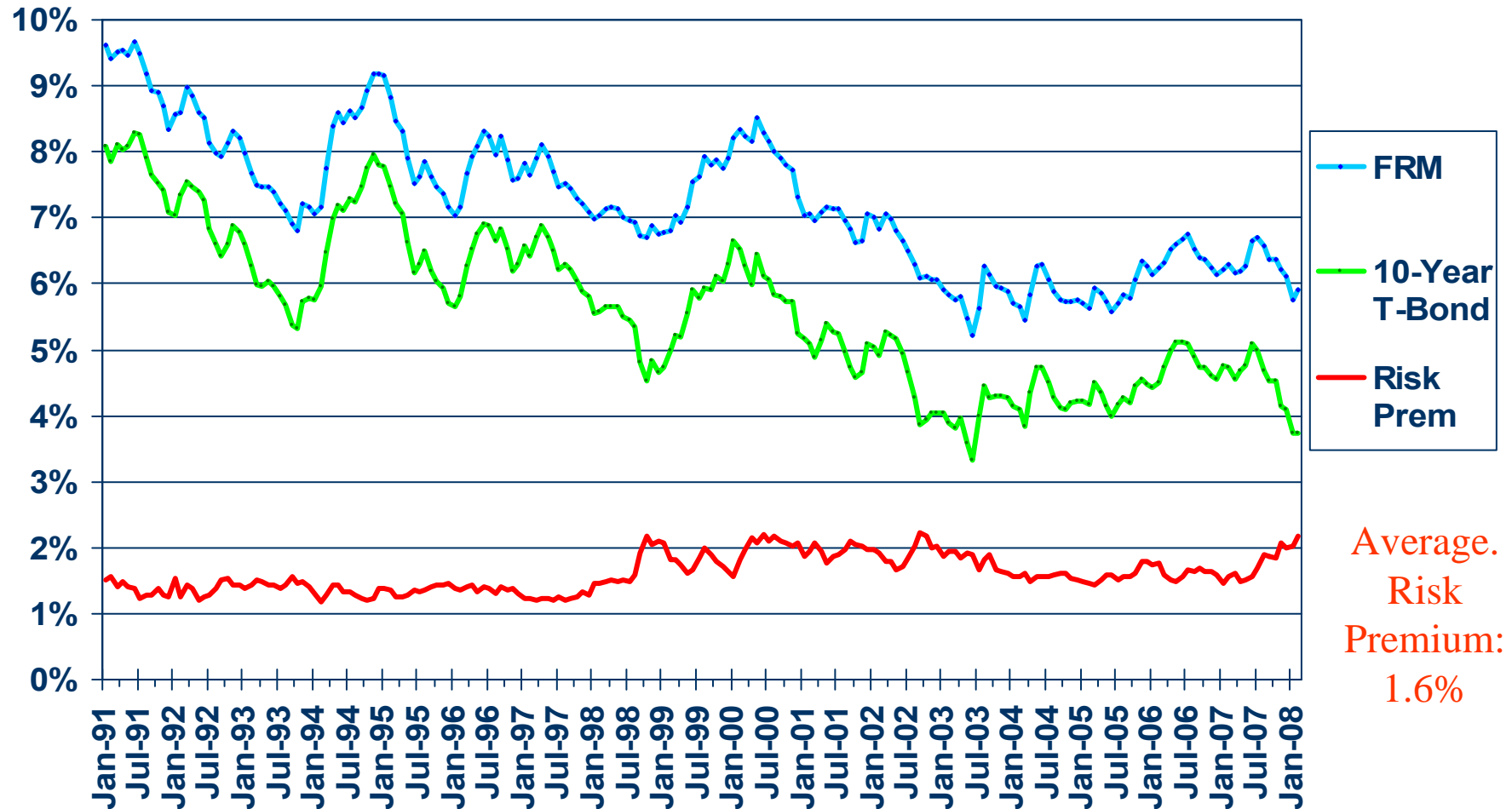
- Subprime and other less-qualified borrowers initially.
- Later spread to well-qualified borrowers.

Credit or Liquidity Crunch

- Investors who normally provide funds to Lenders on sidelines. Source for jumbo loans.
- \$\$\$ in safe havens (Treasuries) because of risk elsewhere.
- Fewer \$\$\$ available, even for well-qualified borrowers in recent months.

30-Year FRM vs. 10-Year T-Bond

Above-Average Risk Premiums Associated With Mortgage Loans



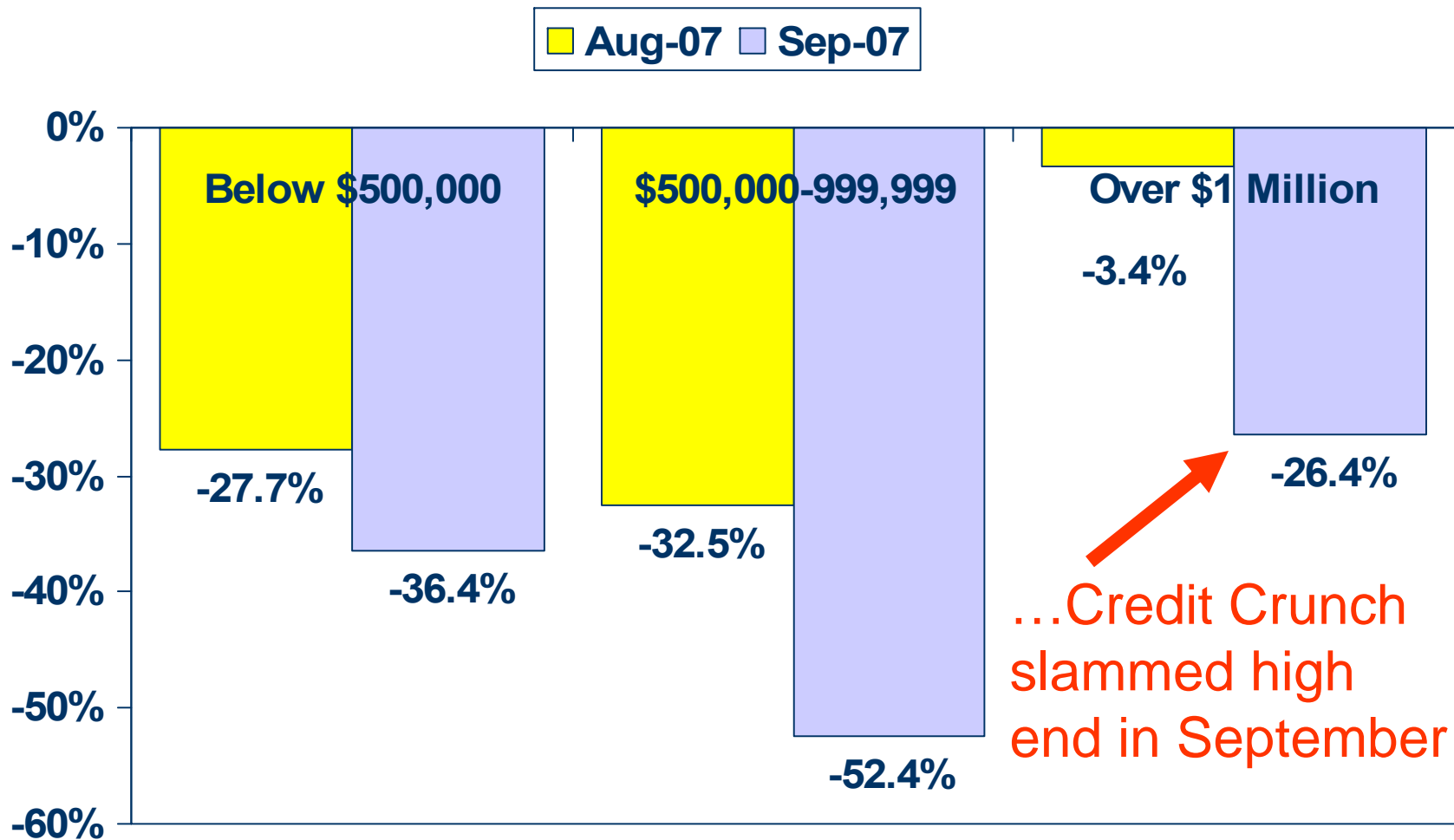
SOURCE: Federal Home Loan Mortgage Corporation – 30-yr FRM
Federal Reserve Board – 10-Year T-Bond

Before Credit Crunch-Peak vs. Current Price Low End Markets Hit by Tighter Underwriting Stds.

Region	Peak Month	Peak Price	Aug-07 Median	% Chg From Peak
Northern California	Aug-05	\$440,420	\$370,390	-15.9%
Sacramento	Aug-05	\$394,450	\$332,510	-15.7%
Central Valley	Aug-05	\$363,680	\$309,740	-14.8%
High Desert	Apr-06	\$334,860	\$287,390	-14.2%
Riverside San Bernardino	Jan-07	\$415,160	\$377,130	-9.2%
Northern Wine Country	Jan-06	\$645,080	\$600,000	-7.0%
Ventura	Aug-06	\$710,910	\$669,870	-5.8%
Orange County	Apr-07	\$747,260	\$710,380	-4.9%
San Diego	May-06	\$622,380	\$595,070	-4.4%
Palm Springs/Lower Desert	Jun-05	\$393,370	\$377,920	-3.9%
San Luis Obispo	Jun-06	\$620,540	\$598,400	-3.6%
San Francisco	May-07	\$853,910	\$832,760	-2.5%
Santa Clara	Apr-07	\$868,410	\$860,000	-1.0%
Monterey Region	Aug-07	\$798,210	\$798,210	0.0%
Los Angeles	Aug-07	\$605,300	\$605,300	0.0%

Lower Price Ranges Hit Hardest, but...

Percentage Change in Sales YTY



SOURCE: California Association of REALTORS®



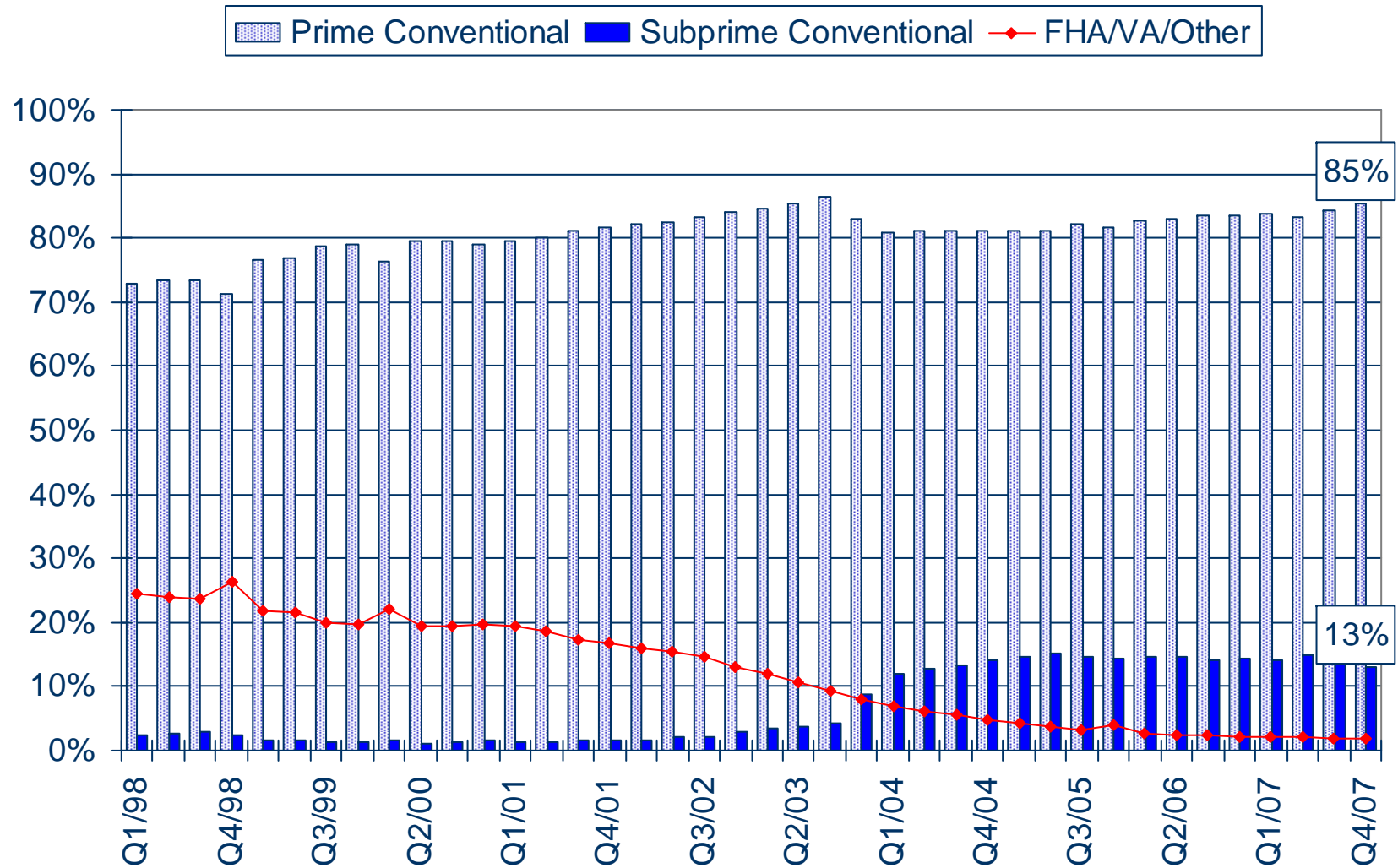
Peak vs Current Price-March 2008

Pain Spread to High End with Credit Crunch

Region	Peak Month	Peak Price	Mar-08 Median	% Chg From Peak
High Desert	Apr-06	\$334,860	\$210,660	-37.1%
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Prime, Sub-Prime, & Other Loans

As a Percentage of All Loans Outstanding in California



Framing the Sub-Prime* Situation

Right \$\$\$ House & Right Mortgage

- Not in trouble - no fix necessary

Right \$\$\$ House but *Wrong Mortgage*

- Can refinance out of problem

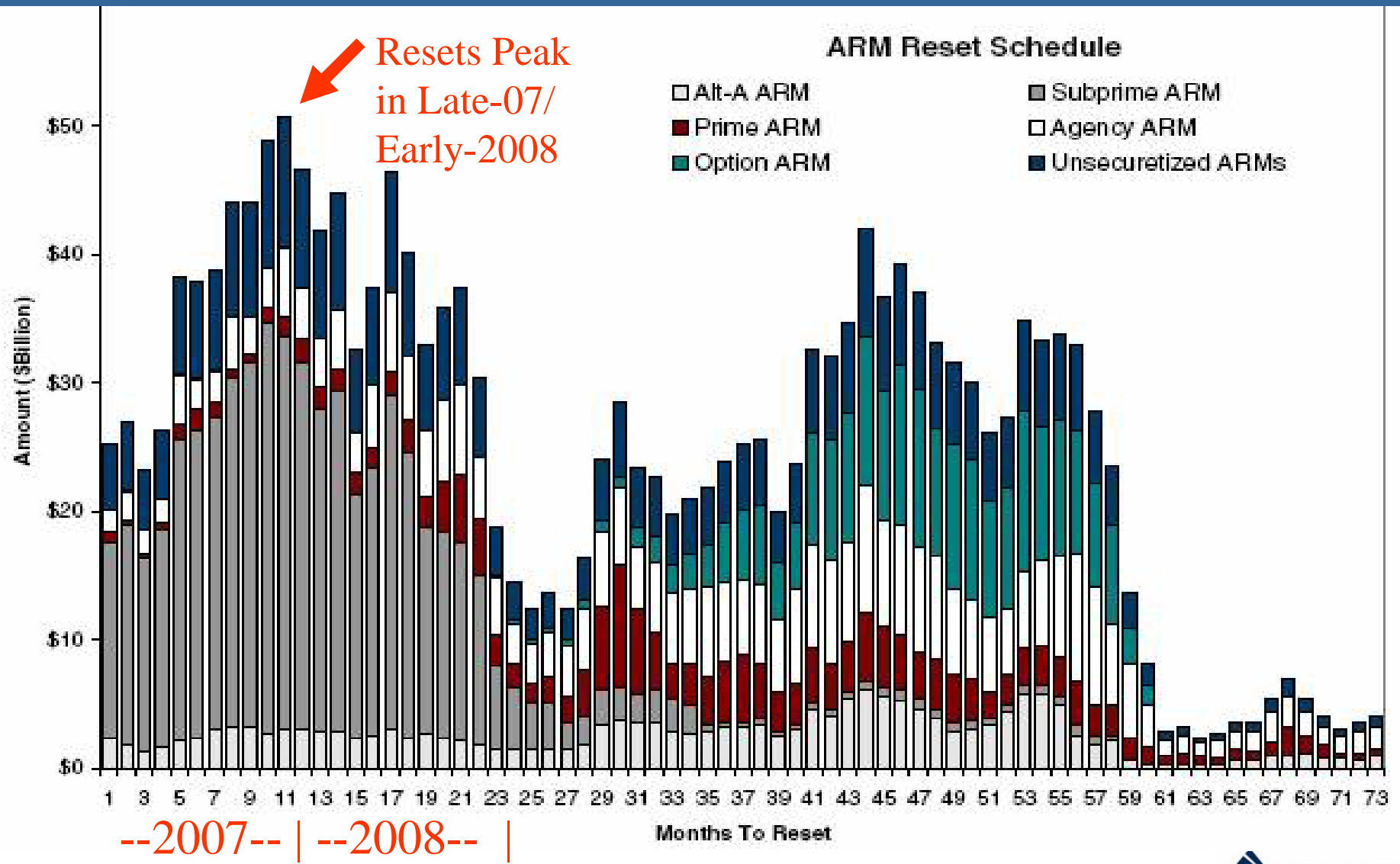
Wrong \$\$\$ House and Wrong Mortgage

- Defaults, workouts, foreclosures, etc.

Troublesome
Categories

* Really should be “Non-Prime” Situation

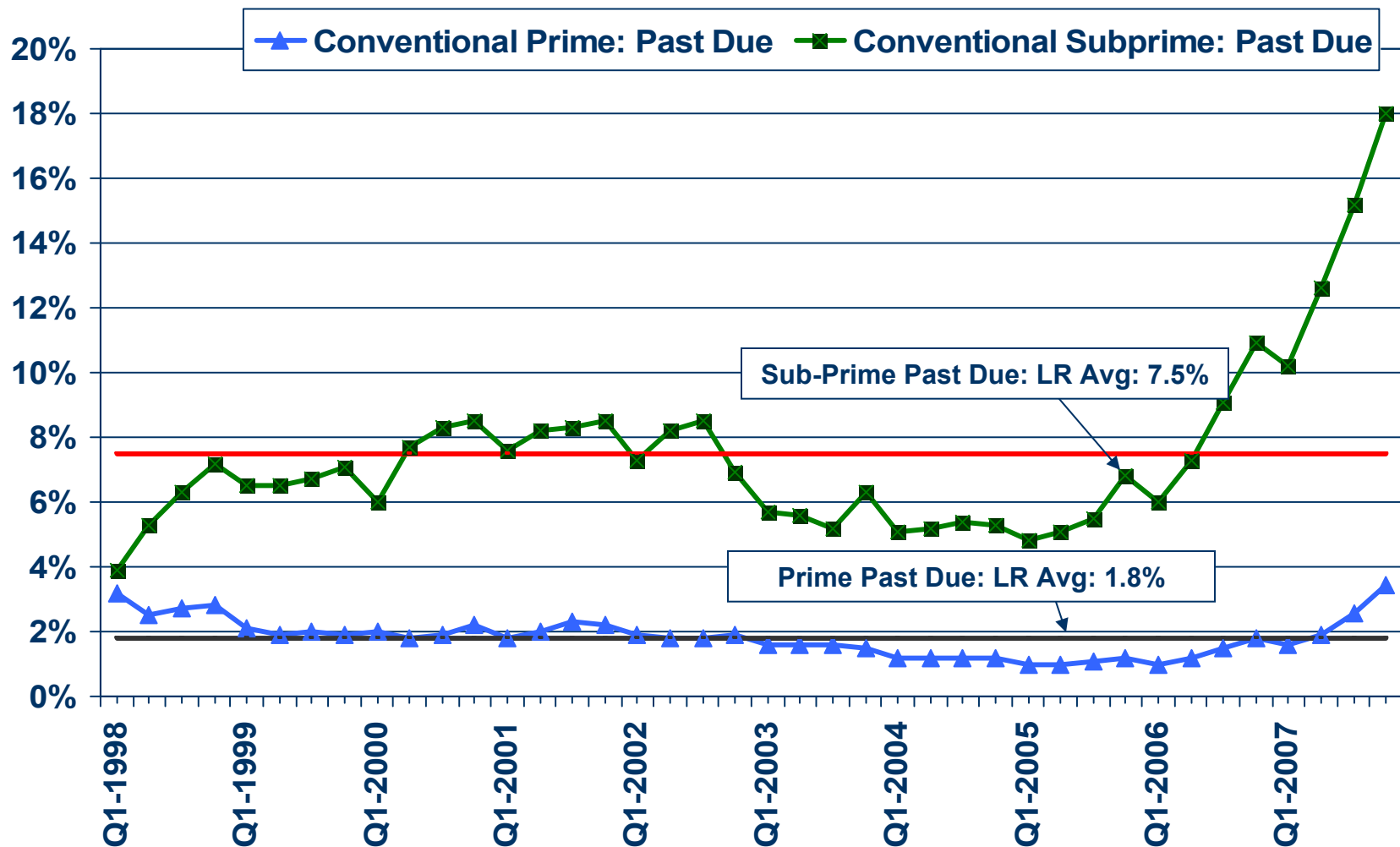
Adjustable Rate Mortgage Reset Schedule



Source: Credit Suisse Jan 2007

Prime Versus Sub-Prime Past Due

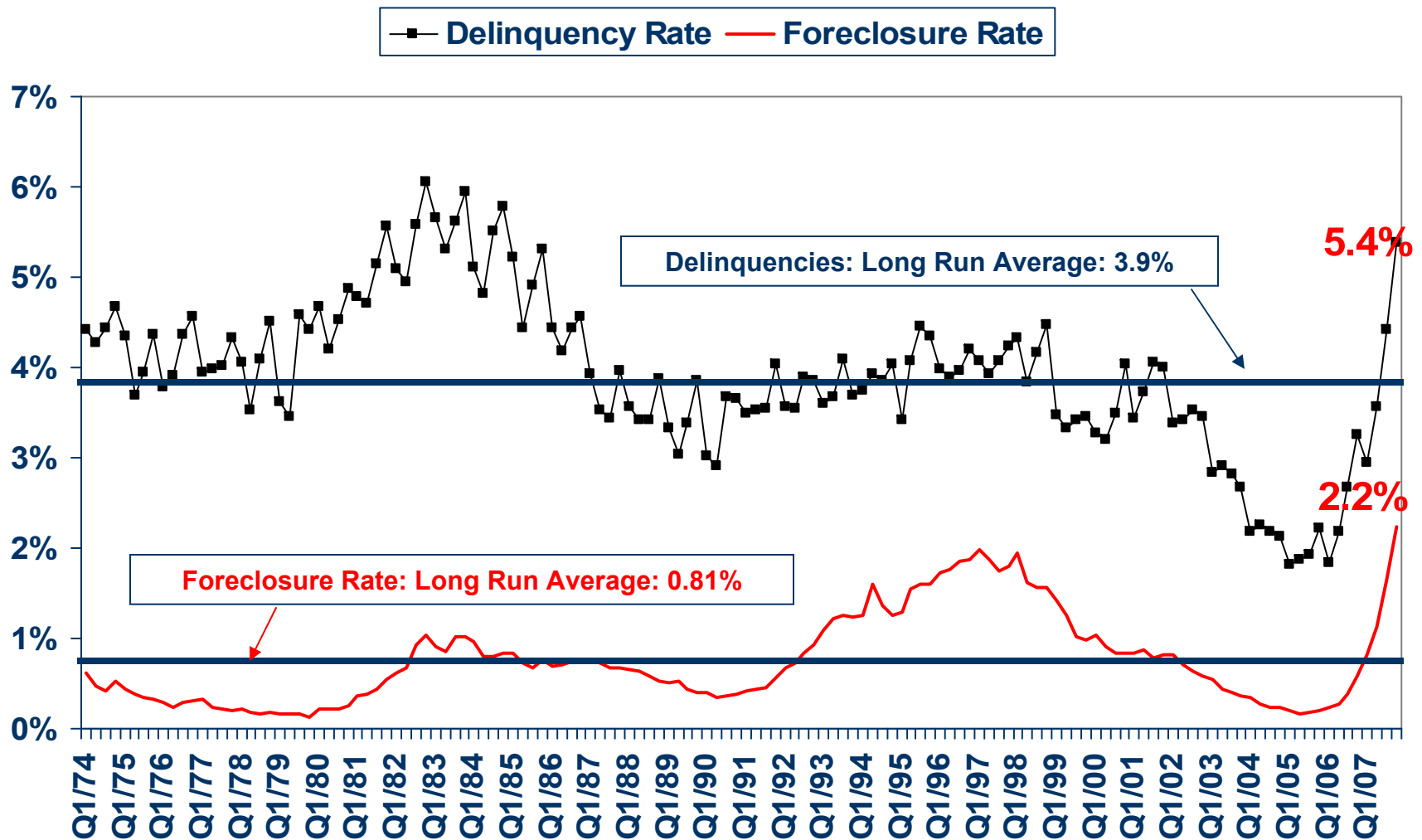
California Q4-2007



SOURCE: Mortgage Bankers Association

Mortgage Foreclosure & Delinquency Rates

California



Notices of Default – Southern California

Houses and Condos

County/Region	2008 Q1	2007 Q4	2007 Q1	QTQ%Chg	YTY%Chg
Los Angeles	20,339	13,613	8,843	49.41%	130.00%
Orange	7,082	4,276	2,644	65.62%	167.85%
San Diego	8,975	6,151	3,931	45.91%	128.31%
Riverside	15,022	9,913	5,750	51.54%	161.25%
San Bernardino	11,149	7,288	4,357	52.98%	155.89%
Ventura	2,176	1,504	965	44.68%	125.49%
SoCal*	65,309	43,146	26,748	51.37%	144.16%

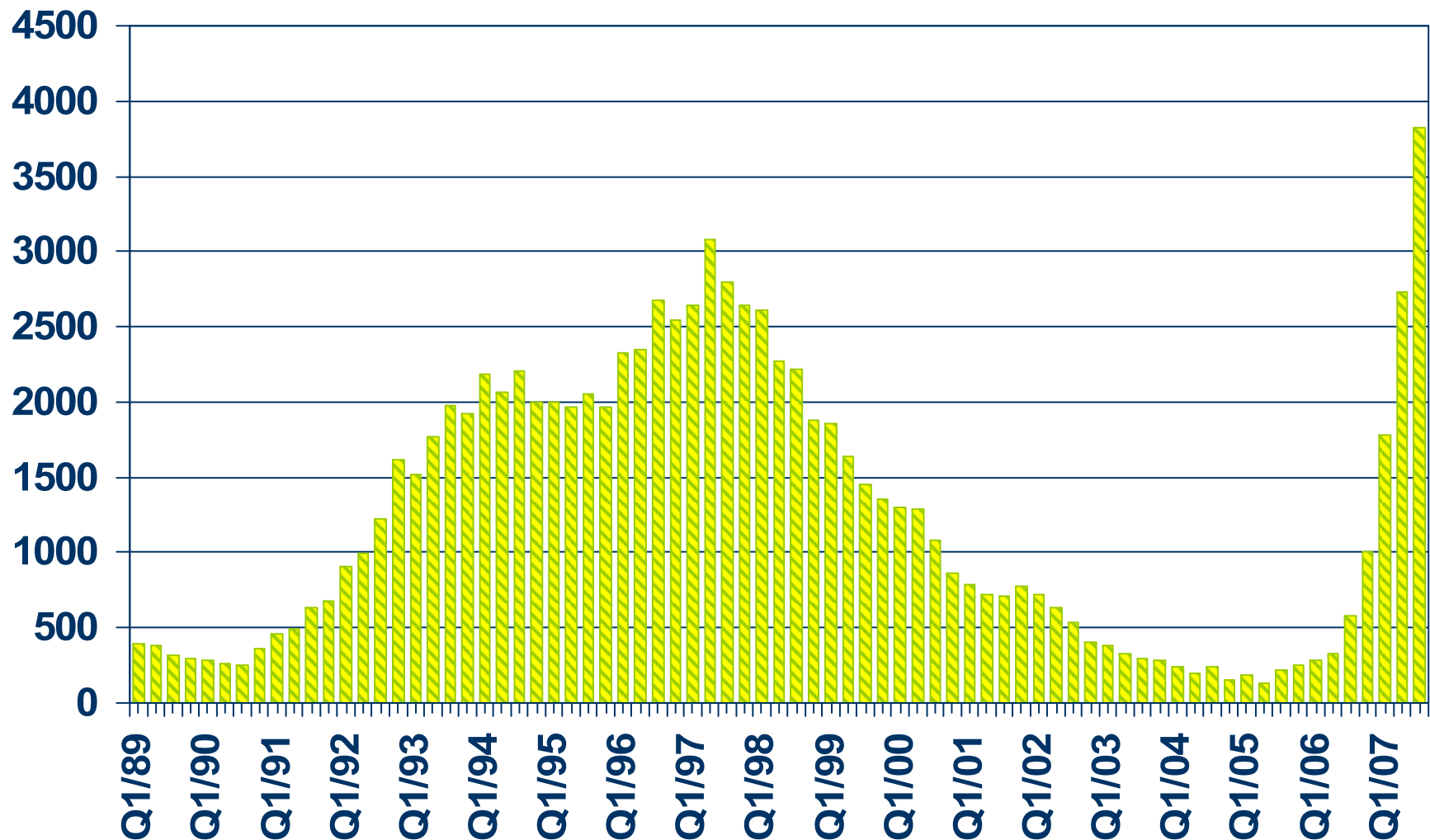
* Includes additional counties

SOURCE: Data Quick Information Systems



Foreclosures High in High Growth Regions

Riverside County-New Record Levels

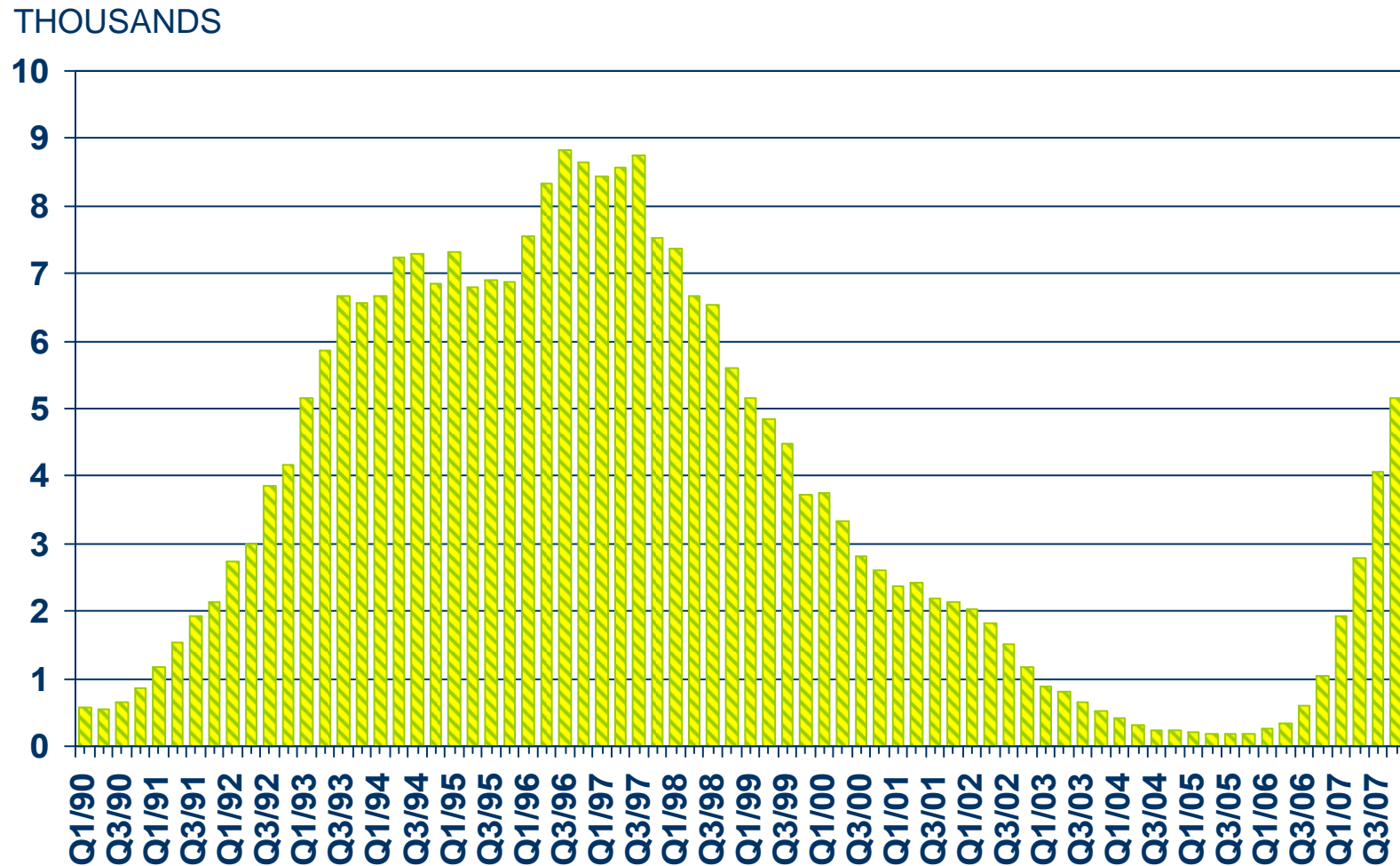


SOURCE: Real Estate Research Council



Foreclosures Up by Less in Coastal Areas

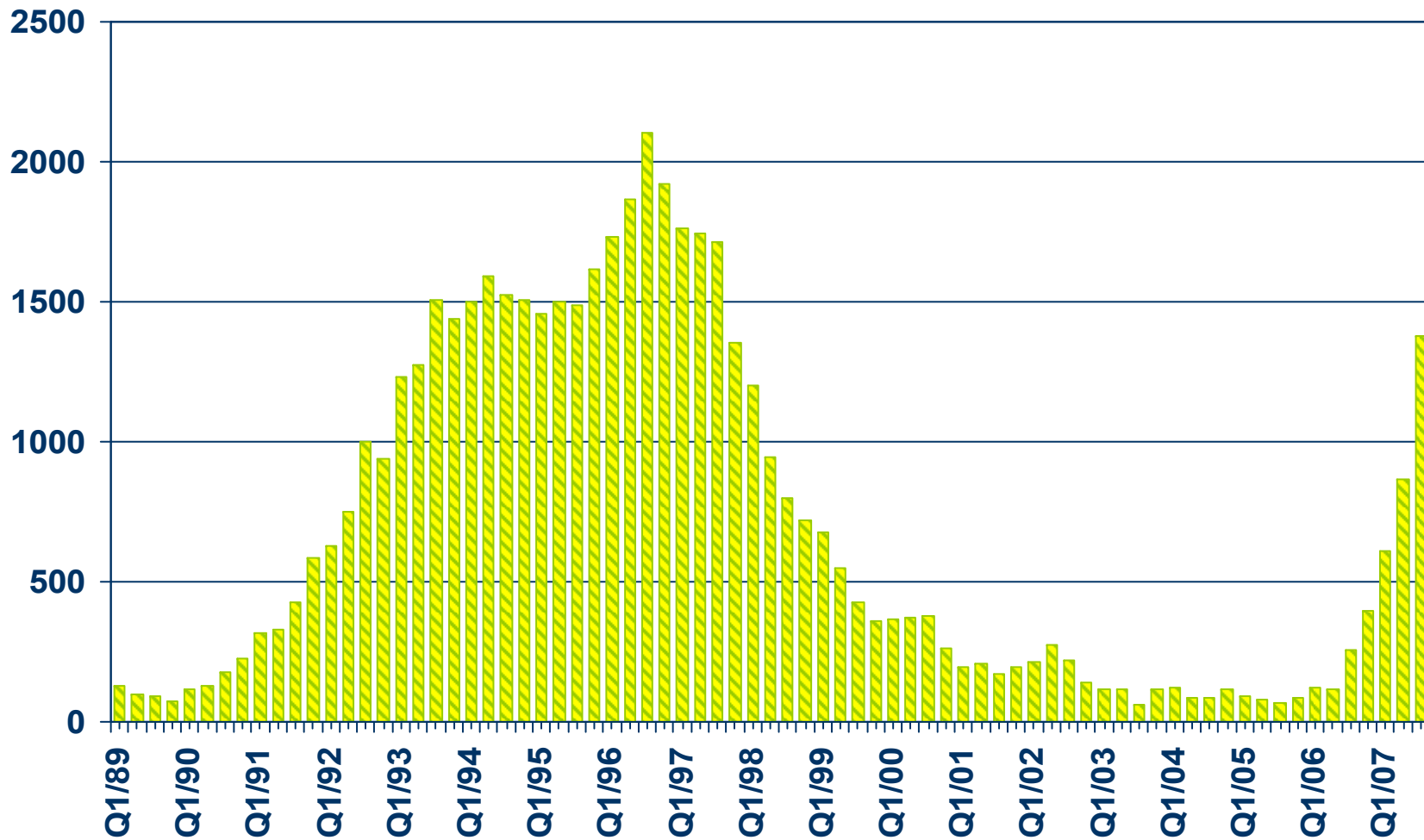
Los Angeles County



SOURCE: Real Estate Research Council

Foreclosures

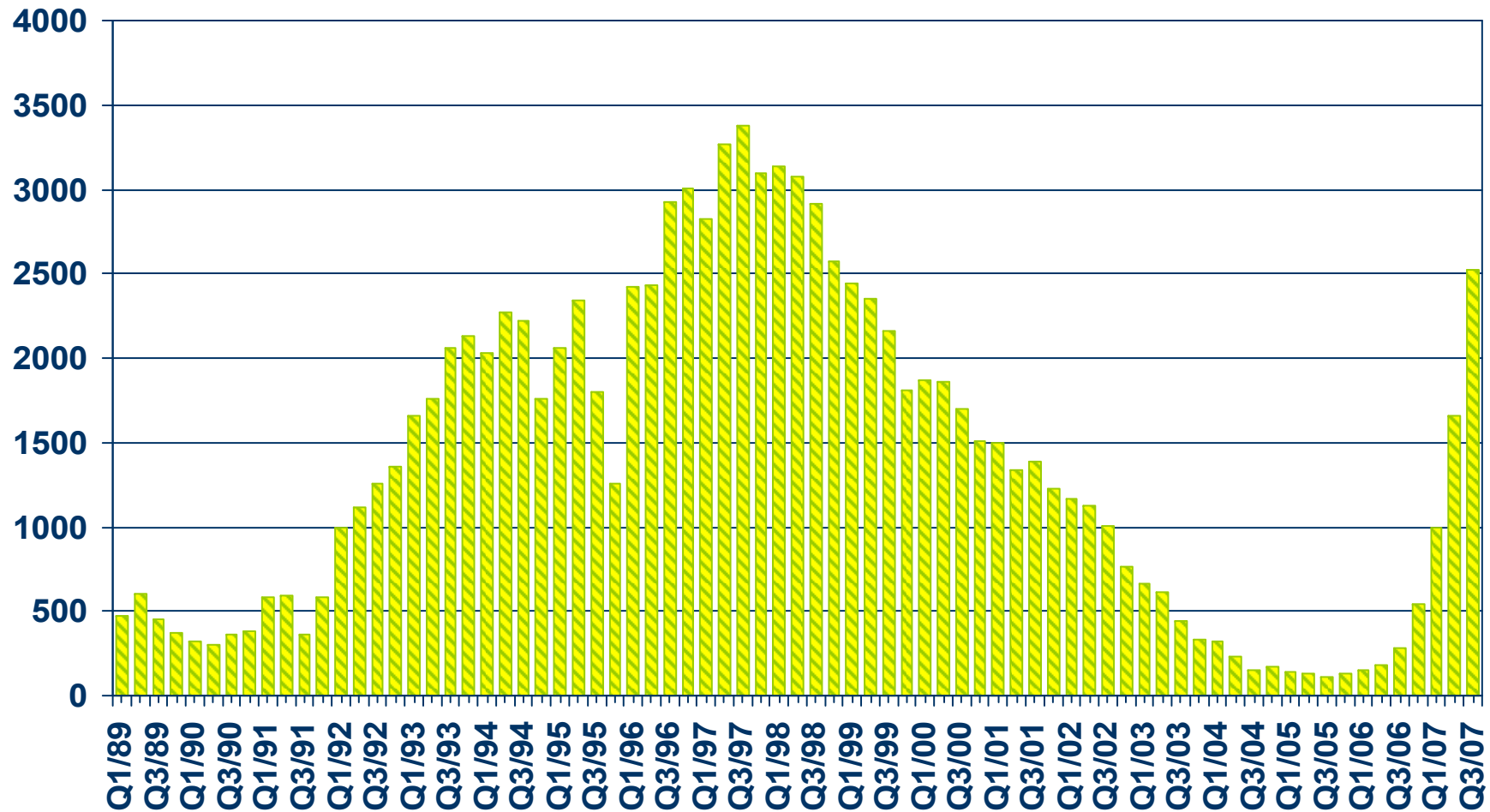
Orange County



SOURCE: Real Estate Research Council

Foreclosures

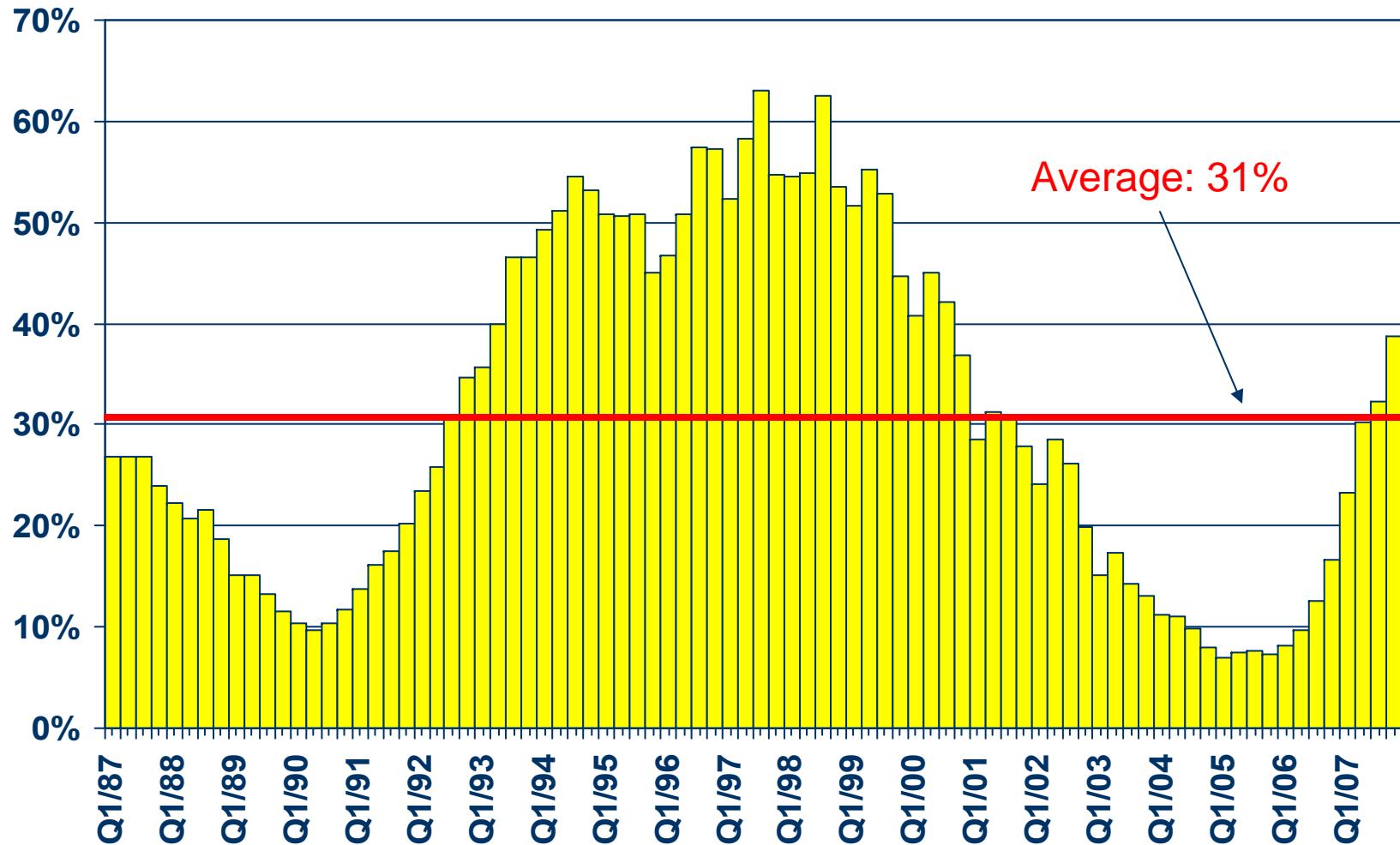
San Bernardino County



SOURCE: Real Estate Research Council

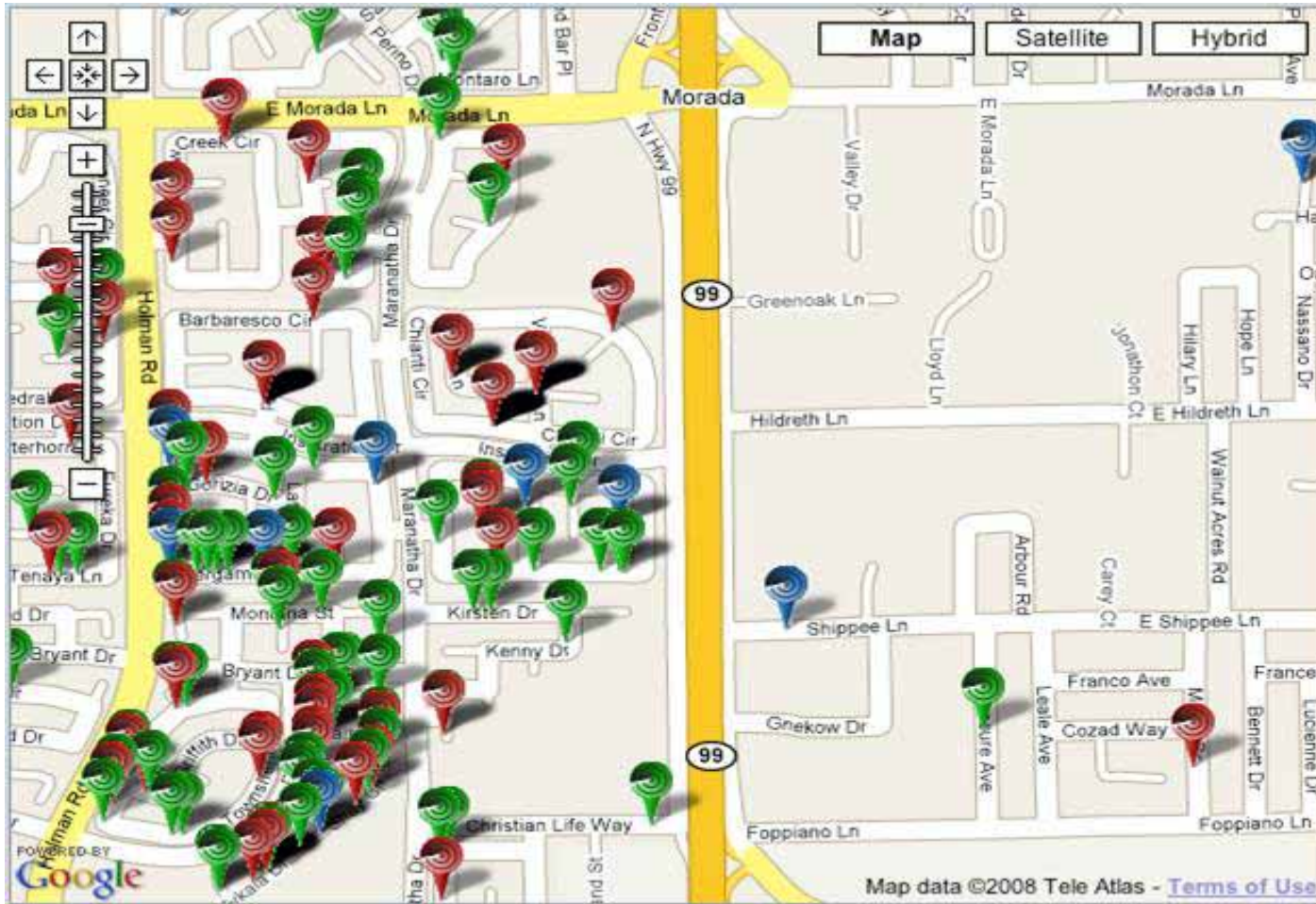
Ratio of Foreclosure to Notices of Default

Southern California



SOURCE: Real Estate Research Council

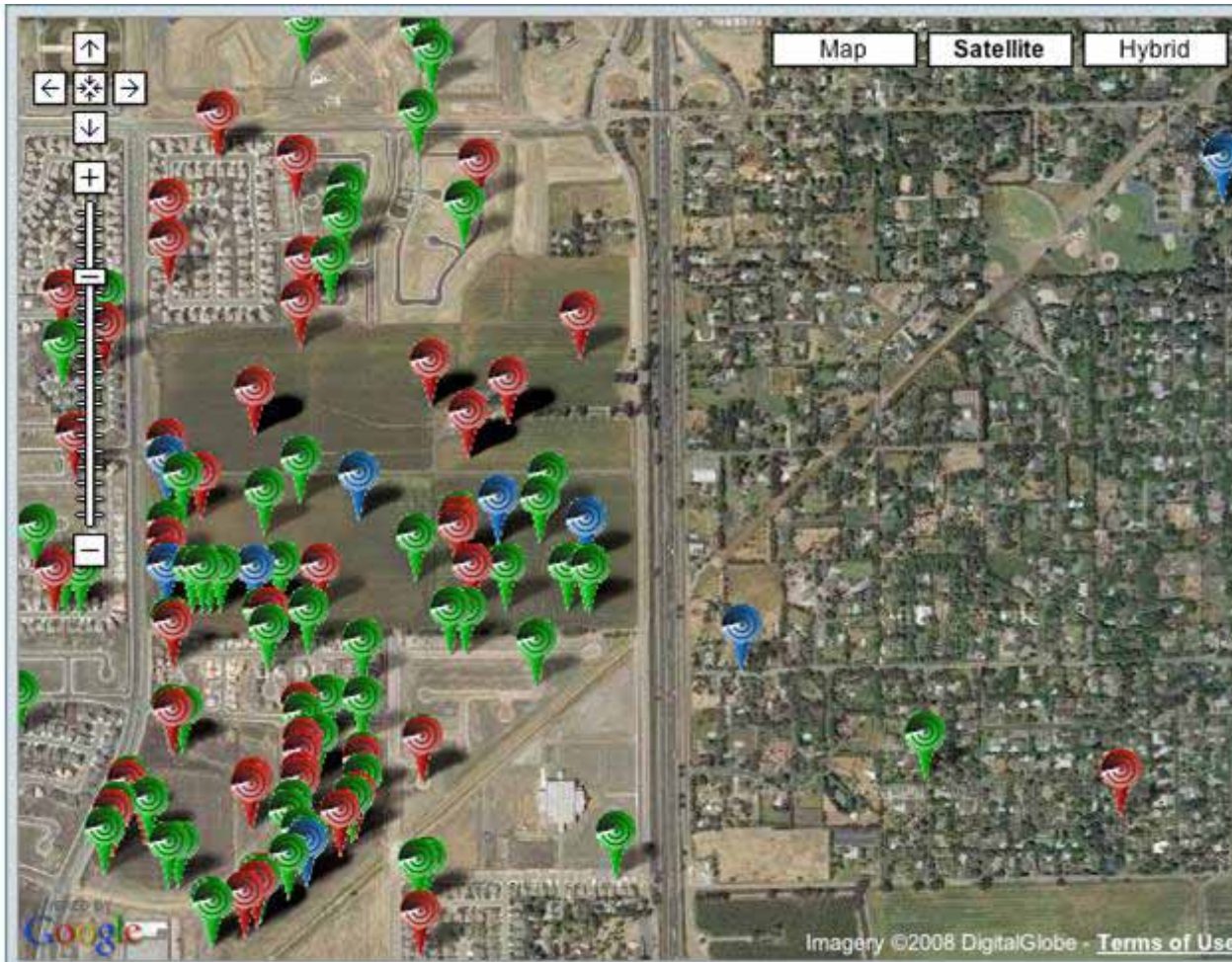
Stockton: A Tale of Two Cities Foreclosure Mapping



What's
Wrong
With this
Picture?

Stockton: A Tale of Two Cities

<http://www.foreclosureradar.com/>



Nothing!

Foreclosures
often are
localized...

- New areas
- First-time buyers



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Housing Market Forecast

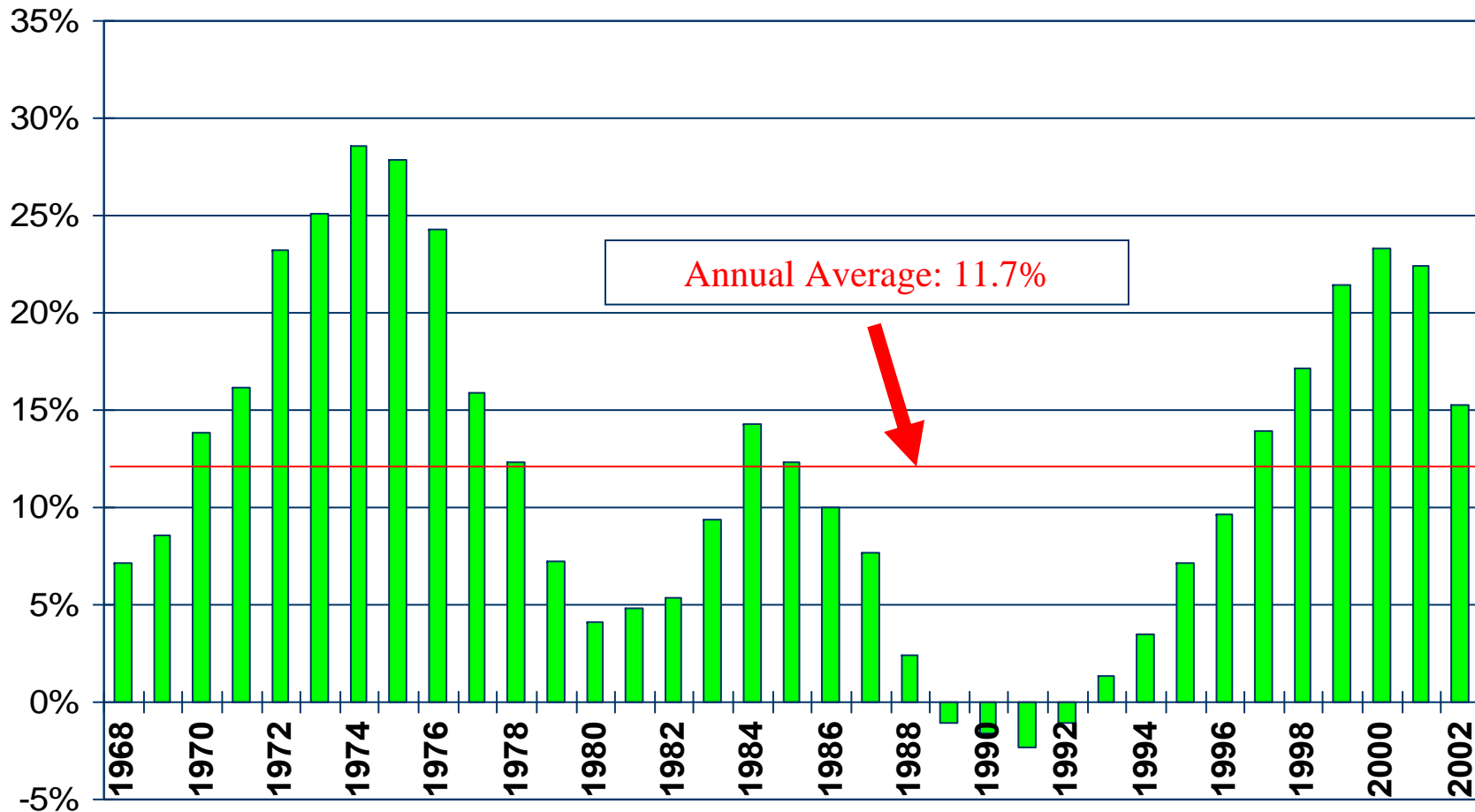
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California Housing Market Forecast

	2003	2004	2005	2006	2007	2008f
SFH Resales (thousands)	601.8	624.7	625.0	477.5	353.3	332.1
% Change	5.1%	3.8%	0.04%	-23.6%	-26.0%	-6.0%
Median Price (\$ thousands)	\$372.7	\$450.8	\$524.0	\$556.6	\$558.1	\$424.0
% Change	17.9%	20.9%	16.2%	6.2%	0.3%	-24.0%
30-Yr FRM	5.8%	5.8%	5.9%	6.4%	6.3%	5.8%
1-Yr ARM	3.8%	3.9%	4.5%	5.5%	5.6%	5.0%

5-Year Rate of Return on Median Price Home

Purchased in Year Shown - Sold After 5 Years (California)



Summary

- Existing Home Sales: 2007: -26%, 2008: -6%
- Statewide Median Price: Continuing decrease (-25%)
- Low end weak...Payment resets, Foreclosures
- High end weak...Credit/Liquidity Crunch
- Tighter Underwriting Standards...maybe too tight
- Affordability to remain low, THEREFORE...
- Stabilizing sales, no significant recovery in next 6-12 months

Recap

- **Economic Outlook for US**
- **Housing Market Outlook 2008**
- **Return to Basics-"Buy and Hold"**

Thank You!

www.car.org ⇒ "Economics"